MONTANA LEGISLATIVE HISTORY

Chapter 451 19 85

Bill H _____ S 412 Original bill & history ✓ C

H. Committee on Taxation			S. Committee on Taxation		
Hearing Date(s)	Mar 30	✓ C	Hearing Date(s)	Mar 10	✓ C
	Apr 05	✓ C		Mar 14	✓ C
	_____	___ C		_____	___ C
	_____	___ C		_____	___ C
Date Out	Apr 05	✓ C		Mar 14	✓ C

Did this bill originate in an interim committee? ___ Yes ___ No

Committee _____ Report _____

2/28	FISCAL NOTE PRINTED		
3/16	HEARING		
3/16	TABLED IN COMMITTEE		
3/29	MISSED TRANSMITTAL DEADLINE FOR 71ST DAY DIED IN COMMITTEE		

SB 412 INTRODUCED BY GROSFIELD, ET AL.

GENERALLY REVISE TAXATION OF OIL AND NATURAL GAS

BY REQUEST OF THE DEPARTMENT OF REVENUE

2/17	INTRODUCED		
2/17	FIRST READING		
2/17	REFERRED TO TAXATION		
2/17	FISCAL NOTE REQUESTED		
2/27	FISCAL NOTE RECEIVED		
2/28	FISCAL NOTE PRINTED		
3/10	HEARING		
3/11	REVISED FISCAL NOTE PRINTED		
3/15	COMMITTEE REPORT—BILL PASSED AS AMENDED		
3/18	2ND READING PASSED AS AMENDED	45	1
3/20	3RD READING PASSED	47	3
	TRANSMITTED TO HOUSE		
3/21	FIRST READING		
3/21	REFERRED TO TAXATION		
3/30	HEARING		
4/06	COMMITTEE REPORT—BILL CONCURRED		
4/07	2ND READING CONCURRED	99	0
4/08	3RD READING CONCURRED	98	0
	RETURNED TO SENATE		
4/11	SIGNED BY PRESIDENT		
4/11	SIGNED BY SPEAKER		
4/11	TRANSMITTED TO GOVERNOR		
4/14	SIGNED BY GOVERNOR CHAPTER NUMBER 451 EFFECTIVE DATE: 04/14/95—SECTIONS 16 & 54 EFFECTIVE DATE: 01/01/96—SECTIONS 1-15, 17-53 & 55		

SB 413 INTRODUCED BY FORRESTER, ET AL.

GENERALLY REVISE PROPERTY TAXATION OF CERTAIN PERSONAL PROPERTY

2/17	INTRODUCED		
2/17	FIRST READING		
2/17	REFERRED TO TAXATION		
2/17	FISCAL NOTE REQUESTED		
2/27	FISCAL NOTE RECEIVED		
3/01	FISCAL NOTE PRINTED		
3/09	HEARING		
3/22	TABLED IN COMMITTEE		
3/29	MISSED TRANSMITTAL DEADLINE FOR 71ST DAY DIED IN COMMITTEE		

SB 414 INTRODUCED BY BROWN, ET AL.

PROVIDE TAX CREDIT FOR CONTRIBUTIONS MADE TO GENERAL ENDOWMENT FUNDS OF COMMUNITY FOUNDATIONS

2/21	INTRODUCED		
2/21	FIRST READING		
2/21	REFERRED TO TAXATION		
2/22	FISCAL NOTE REQUESTED		

SENATE BILL NO. 412

INTRODUCED BY BY REQUEST OF THE DEPARTMENT OF REVENUE

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING THE TAXATION OF OIL AND NATURAL GAS; ELIMINATING THE OIL AND NATURAL GAS NET PROCEEDS TAX, THE LOCAL GOVERNMENT SEVERANCE TAX, THE STATE OIL AND GAS SEVERANCE TAX, AND THE OIL AND GAS PRIVILEGE AND LICENSE TAX; IMPOSING OIL AND NATURAL GAS PRODUCTION TAXES BASED ON THE TYPE OF WELL AND TYPE OF PRODUCTION; PROVIDING FOR THE DISTRIBUTION OF OIL AND NATURAL GAS PRODUCTION TAXES; PROVIDING A DISBURSEMENT TO SCHOOL DISTRICTS AND LOCAL GOVERNMENTS TO REPLACE NET PROCEEDS AND LOCAL GOVERNMENT SEVERANCE TAX REVENUE; EXEMPTING OIL AND NATURAL GAS PRODUCTION FROM THE RESOURCE INDEMNITY TRUST TAX; PROVIDING AN ALLOCATION OF OIL AND NATURAL GAS PRODUCTION TAX REVENUE FOR THE PURPOSES OF THE MONTANA RESOURCE INDEMNITY TRUST AND GROUND WATER ASSESSMENT ACT; PROVIDING FOR THE ACCELERATED PAYMENT OF LOCAL GOVERNMENT SEVERANCE TAXES FOR PRODUCTION YEAR 1995; AUTHORIZING COUNTIES TO ESTABLISH AN OIL AND NATURAL GAS ACCELERATED TAX FUND; ALLOWING SCHOOL DISTRICTS TO USE ACCELERATED LOCAL GOVERNMENT SEVERANCE TAX PAYMENTS FOR ANY BUDGET PURPOSE; AMENDING SECTIONS 7-1-2111, 7-7-2101, 7-7-2203, 7-14-2524, 7-14-2525, 7-16-2327, 15-1-501, 15-6-208, 15-16-102, 15-23-103, 15-23-104, 15-23-106, 15-23-115, 15-38-105, 15-38-121, 15-38-202, 17-7-502, 20-9-104, 20-9-141, 20-9-161, 20-9-331, 20-9-333, 20-9-501, 20-9-507, 20-10-144, 20-10-146, 82-11-118, AND 82-11-135, MCA; REPEALING SECTIONS 15-23-601, 15-23-602, 15-23-603, 15-23-605, 15-23-606, 15-23-607, 15-23-608, 15-23-609, 15-23-610, 15-23-611, 15-23-612, 15-23-613, 15-23-614, 15-23-621, 15-23-631, 15-36-101, 15-36-102, 15-36-103, 15-36-104, 15-36-105, 15-36-106, 15-36-107, 15-36-108, 15-36-109, 15-36-110, 15-36-112, 15-36-113, 15-36-114, 15-36-120, 15-36-121, 15-36-122, 15-36-126, 82-11-131, 82-11-132, AND 82-11-133, MCA; AND PROVIDING EFFECTIVE DATES AND APPLICABILITY PROVISIONS."

STATEMENT OF INTENT

(1) A statement of intent is required for this bill because [section 16] grants the department of

revenue authority to adopt rules for the implementation and administration of the new production taxes imposed on oil and natural gas.

(2) The legislature contemplates that rules adopted by the department should, at a minimum, address the following:

(a) the forms and other documents required for the reporting and payment of the oil and natural gas production tax;

(b) the definition and clarification of the categories of oil and natural gas subject to taxation;

(c) the requirements for the maintenance of records and other documents required to ensure proper payment of oil and natural gas production taxes;

(d) the process for the estimation and collection of delinquent or unpaid taxes; and

(e) the procedures for the efficient collection of the oil and natural gas production tax.

(3) [This act] takes effect before taxes on the oil and gas net proceeds tax, the local government severance tax, the state oil and gas severance tax, the resource indemnity and ground water assessment tax, and the oil and gas privilege and license tax for certain production periods will have been paid. The legislature intends that the department establish procedures to ensure that all tax liabilities for production occurring before January 1, 1996, are satisfied. The legislature also intends that the department establish procedures for the proper distribution of this tax revenue to all affected governmental entities and funds.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

NEW SECTION. **Section 1. Short title.** [Sections 1 through 20] may be cited as the "Montana Oil and Natural Gas Production Tax Act".

NEW SECTION. **Section 2. Legislative findings and declaration of purpose.** (1) (a) The legislature finds that the extraction taxes imposed on the production of oil and natural gas have been exceedingly complex and confusing. Oil and natural gas producers have been required to file several tax forms and to pay taxes at different times on the same production.

(b) The legislature further finds that it is in the best interest of the state and in the best interest of oil and gas producers to simplify the taxation of oil and natural gas production.

(2) The legislature declares that the purposes of [sections 1 through 20] are:

(a) to replace all net proceeds taxes, severance taxes, privilege and license taxes, and other extraction taxes on oil and natural gas production with a single production tax based on the type of well and type of production;

(b) to ensure that the distribution of tax revenue to the state, counties, and school districts from the new production taxes is consistent with the distribution of tax revenue from the former extraction taxes;

(c) to simplify the procedures for compliance with and the administration of the taxation of oil and natural gas production;

(d) to provide an incentive for oil and natural gas producers to pay 1995 local government severance taxes on an accelerated basis; and

(e) to provide discretionary authority to counties and school districts for the use of the accelerated payments of the local government severance tax.

NEW SECTION. **Section 3. Definitions.** As used in [sections 1 through 20], the following definitions apply:

(1) "Board" means the board of oil and gas conservation provided for in 2-15-3303.

(2) "Department" means department of revenue provided for in 2-15-1301;

(3) "Enhanced recovery project" means the use of any process for the displacement of oil from the earth other than primary recovery and includes the use of an immiscible, miscible, chemical, thermal, or biological process.

(4) "Existing enhanced recovery project" means an enhanced recovery project that began development before January 1, 1994.

(5) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells or production wells, the recompletion of existing wells as horizontally completed wells, the change of an injection pattern, or other operating changes to an existing enhanced recovery project that will result in the recovery of oil that would not otherwise be recovered. The project must be developed after December 31, 1993, and before January 1, 2002.

(6) "Gross taxable value", for the purpose of computing the oil and natural gas production tax, means the gross value of the product as determined in [section 5].

(7) "Horizontal drain hole" means that portion of a well bore with 70 degrees to 110 degrees

deviation from the vertical and a horizontal projection within the common source of supply, as that term is defined by the board, that exceeds 100 feet.

(8) "Horizontally completed well" means:

(a) a well with one or more horizontal drain holes; and

(b) any other well classified by the board as a horizontally completed well.

(9) "Incremental production" means:

(a) the volume of oil produced by a new enhanced recovery project, by a well in primary recovery recompleted as a horizontally completed well, or by an expanded enhanced recovery project, which volume of production is in excess of the production decline rate established under the conditions existing before:

(i) the commencement of the recompletion of a well as a horizontally completed well;

(ii) expansion of the existing enhanced recovery project; or

(iii) commencing a new enhanced recovery project; or

(b) in the case of any project that had no taxable production prior to commencing the enhanced recovery project, all production of oil from the enhanced recovery project.

(10) "Natural gas" or "gas" means natural gas and other fluid hydrocarbons, other than oil, produced at the wellhead.

(11) "New enhanced recovery project" means an enhanced recovery project that began development after December 31, 1993, and before January 1, 2002.

(12) "Nonworking interest owner" means any interest owner who does not share in the exploration, development, and operation costs of the lease or unit, except for production taxes.

(13) "Oil" means crude petroleum or mineral oil and other hydrocarbons, regardless of gravity, that are produced at the wellhead in liquid form and that are not the result of condensation of gas after it leaves the wellhead.

(14) "Operator" or "producer" means a person who produces oil or natural gas within this state or who owns, controls, manages, leases, or operates within this state any well or wells from which any marketable oil or natural gas is ex' ed or produced.

(15) "Post-1985 well" means an oil or natural gas well drilled after June 30, 1985, other than horizontally completed or recompleted oil wells drilled after December 31, 1993, that produces oil or natural gas or a well that has not produced oil or natural gas during the 5 years immediately preceding the first month of qualifying as a post-1985 well.

(16) "Pre-1985 well" means an oil or natural gas well that was drilled before July 1, 1985.

(17) "Primary recovery" means the displacement of oil from the earth into the well bore by means of the natural pressure of the oil reservoir and includes artificial lift.

(18) "Production decline rate" means the projected rate of future oil production, extrapolated by a method approved by the board, that must be determined for a project area prior to commencing a new or expanded enhanced recovery project or the recompletion of a well as a horizontally completed well. The approved production decline rate must be certified in writing to the department by the board. In that certification, the board shall identify the project area and shall specify the projected rate of future oil production by calendar year and by calendar quarter within each year. The certified rate of future oil production must be used to determine the volume of incremental production that qualifies for the tax rate imposed under [section 4(4)(d)].

(19) "Secondary recovery project" means an enhanced recovery project, other than a tertiary recovery project, that commenced or was expanded after December 31, 1993, and before January 1, 2002, and meets each of the following requirements:

(a) The project must be certified as a secondary recovery project to the department by the board. The certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(b) The property to be affected by the project must be adequately delineated according to the specifications required by the board.

(c) The project must involve the application of secondary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of oil that may potentially be recovered. For purposes of [sections 1 through 20], secondary recovery methods include but are not limited to:

(i) the injection of water into the producing formation for the purposes of maintaining pressure in that formation or for the purpose of increasing the flow of oil from the producing formation to a producing well bore; or

(ii) any other method approved by the board as a secondary recovery method.

(20) "Stripper natural gas" means the natural gas produced from any well that produces less than 60,000 cubic feet of natural gas a day during the calendar year immediately preceding the current year. Production must be determined by dividing the amount of production from a lease or unitized area for the year immediately preceding the current calendar year by the number of producing wells in the lease or

unitized area and by dividing the resulting quotient by 365.

(21) "Stripper oil" means the oil produced from any well that produces less than 10 barrels a day for the calendar year immediately preceding the current year. Production must be determined by dividing the amount of production from a lease or unitized area for the year immediately preceding the current calendar year by the number of producing wells in the lease or unitized area and by dividing the resulting quotient by 365.

(22) "Tertiary recovery project" means an enhanced recovery project, other than a secondary recovery project, using a tertiary recovery method that meets the following requirements:

(a) The project must be certified as a tertiary recovery project to the department by the board. The certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(b) The property to be affected by the project must be adequately delineated in the certification according to the specifications required by the board.

(c) The project must involve the application of one or more tertiary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of crude oil that may potentially be recovered. For purposes of [sections 1 through 20], tertiary recovery methods include but are not limited to:

(i) miscible fluid displacement;

(ii) steam drive injection;

(iii) micellar/emulsion flooding;

(iv) in situ combustion;

(v) polymer augmented water flooding;

(vi) cyclic steam injection;

(vii) alkaline or caustic flooding;

(viii) carbon dioxide water flooding;

(ix) immiscible carbon dioxide displacement; or

(x) any other method approved by the board as a tertiary recovery method.

(23) "Well" or "wells" means a single well or a group of wells in one field or production unit and under the control of one operator or producer.

(24) "Working interest owner" means the owner of an interest in an oil or natural gas well or wells who bears any portion of the exploration, development, and operating costs of the well or wells.

NEW SECTION. **Section 4. Production tax rates imposed on oil and natural gas.** (1) The production of oil and natural gas is taxed as provided in this section. The tax is distributed as provided in [section 18].

(2) Natural gas is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

	Working Interest	Nonworking Interest
(a) pre-1985 wells	18.75%	15%
(b) post-1985 wells		
(i) first 12 months of qualifying production	3.35%	15%
(ii) after 12 months	15.35%	15%
(c) stripper natural gas pre-1985 and post-1985 wells	11.2%	15%

(3) The reduced tax rate under subsection (2)(b)(i) on natural gas production for the first 12 months of natural gas production from a post-1985 well begins following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.

(4) Oil is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

	Working Interest	Nonworking Interest
(a) primary recovery production		
(i) pre-1985 wells	14.1%	16.5%
(ii) post-1985 wells		
(A) first 12 months of qualifying production	5.7%	16.5%
(B) after 12 months	12.7%	16.5%
(b) stripper oil production		

pre-1985 and post-1985 wells	11%	16.5%
(c) horizontally completed well production		
(i) first 18 months of		
qualifying production	5.7%	5.7%
(ii) after 18 months	12.7%	12.7%
(d) incremental production		
(i) new or expanded secondary recovery production		
(A) pre-1985 well	8.7%	16.2%
(B) post-1985 well	8.7%	10.7%
(ii) new or expanded tertiary production		
(A) pre-1985 well	6%	15.2%
(B) post-1985 well	6%	9.7%
(e) horizontally recompleted well		
(i) first 18 months	5.7%	5.7%
(ii) after 18 months	12.7%	12.7%

(5) (a) The reduced tax rate under subsection (4)(a)(ii)(A) on oil production for the first 12 months of oil production from a post-1985 well begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that notification has been given to the department.

(b) The reduced tax rate under subsection (4)(c)(i) on oil production from a horizontally completed well and the reduced tax rate under subsection (4)(e)(i) on oil production from a horizontally recompleted well for the first 18 months of production begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that the well has been certified as a horizontally completed well or as a horizontally recompleted well to the department by the board.

(c) Incremental production is taxed as provided in subsection (4)(d) if the average price per barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less than $30 a barrel. If the price of oil is equal to or greater than $30 a barrel in a calendar quarter as determined in subsection (5)(d), incremental production is taxed at the rate imposed on primary recovery production under subsection (4)(a)(i) for production occurring in that quarter.

(d) For the purposes of subsection (5)(c), the average price per barrel must be computed by

dividing the sum of the daily price for west Texas intermediate crude oil as reported in the Wall Street Journal for the calendar quarter by the number of days on which the price was reported in the quarter.

NEW SECTION. **Section 5. Determination of gross value of product.** The total gross value of all oil or natural gas produced and sold each quarter must be determined by taking the total number of barrels or cubic feet of oil or natural gas produced and sold each month at the average value at the mouth of the well during the month that the oil or natural gas is produced and sold, as determined by the department. However, in computing the total number of barrels of oil or cubic feet of gas produced and sold, there must be deducted the amount of oil or gas used by the person in connection with the operation of the well from which the oil or gas is produced or for pumping the oil or gas from the well to a tank or pipeline.

NEW SECTION. **Section 6. Certain royalties exempt.** Exempt from taxation are royalties received by:

(1) an Indian tribe with respect to on-reservation oil and gas production pursuant to a lease entered into under the Indian Mineral Leasing Act of 1938, 25 U.S.C. 396a-396g;

(2) the United States as trustee for individual Indians; and

(3) the United States, the state of Montana, or a county or municipal government in Montana.

NEW SECTION. **Section 7. Operator responsible for payment -- deduction of taxes from royalty payments.** (1) Each operator required to pay the oil and natural gas production tax under [sections 1 through 20] shall pay the tax in full for the operator's own account and for the account of each of the other owners of the gross value of product or in kind of all the marketable oil or natural gas produced and sold. Other owners include an owner or owners of working interest, royalty interest, overriding royalty interest, carried working interest, production payments, and all other interest or interests owned or carved out of the total gross value of product or in kind of the extracted marketable oil or natural gas.

(2) Unless otherwise provided in a contract or lease, the pro rata share of any royalty owner or owners must be deducted from any settlements under the lease or leases or division of proceeds orders or other contracts.

NEW SECTION. **Section 8. Quarterly payment of tax -- statement -- failure to pay penalty.** (1)

The oil and natural gas production tax must be paid in quarterly installments for the quarterly periods ending, respectively, March 31, June 30, September 30, and December 31 of each year, and the amount of the tax for each quarterly period must be paid to the department within 60 days after the end of each quarterly period.

(2) The operator shall complete on forms prescribed by the department a statement showing the total number of barrels of merchantable or marketable oil or cubic feet of natural gas produced and sold by the person in the state during each month of the quarter and during the whole quarter, the average value of the production sold during each month, and the total value of the production sold for the whole quarter, together with the total amount due as taxes for the quarter. The statement must be filed within the time provided in subsection (1). The statement must be accompanied by the tax due. The statement must be signed by the individual or the president, vice president, treasurer, assistant treasurer, or authorized agent of the association, corporation, joint-stock company, or syndicate making the statement. A person engaged in carrying on business at more than one place in this state or owning, leasing, controlling, or operating more than one oil or gas well in this state may include all operations in one statement.

(3) If the tax is not paid on or before the due date, there must be assessed a penalty of 10% of the amount of the tax not paid. If the tax is not paid when due, interest also must be added at the rate of 1% a month or fraction of a month, computed on the total amount of the tax from the due date until paid. The department may waive the 10% penalty if reasonable cause for the failure to pay is provided to the department.

NEW SECTION. **Section 9. Record of product -- carriers to furnish data -- penalty.** (1) Each person who purchases oil or natural gas shall keep a record of all oil or natural gas purchased by the person in this state. The records are subject to inspection by the department on reasonable notice at any time during normal business hours.

(2) Each railroad, pipeline, purchasing, and transportation company that carries or purchases oil or natural gas shall furnish to the department, whenever requested to do so, all data related to the shipment of oil or natural gas that may be required to properly enforce the provisions of [sections 1 through 20]. A railroad, pipeline, purchasing, or transportation company that fails to comply with the provisions of this section is subject to a penalty of $100 for each day that it fails to furnish the statement.

NEW SECTION. **Section 10. Procedure to compute tax in absence of statement -- estimation of tax -- failure to file penalty and interest.** (1) If the operator fails to file any statement required by [section 8] within the time required, the department shall, immediately after the time has expired, ascertain the number of barrels of oil or cubic feet of gas produced and sold by the person in this state during the quarter and during each month of the quarter. The department also shall determine the average value of the barrels of oil produced and sold during each month or the average value of cubic feet of gas produced and sold during each month and fix the amount of the taxes due from the person for the quarter.

(2) The department shall impose a penalty of 10% of the tax due plus interest at the rate of 1% a month or fraction of a month, computed on the total amount of the tax. Interest must be computed from the date on which the oil and natural gas production taxes were due to the date of payment. The department shall mail to the taxpayer a notice, pursuant to 15-1-211, of the tax, penalty, and interest proposed to be assessed. The taxpayer may seek review of the determination pursuant to 15-1-211. The notice must contain a statement that if payment is not made, a warrant for distraint may be filed. The department may waive the 10% penalty if reasonable cause for the failure to file the statement required by [section 8] is provided to the department.

NEW SECTION. **Section 11. Deficiency assessment -- review -- interest.** (1) When the department determines that the amount of the tax due is greater than the amount disclosed by a return, it shall mail to the taxpayer a notice, pursuant to 15-1-211, of the additional tax proposed to be assessed. The notice must contain a statement that if payment is not made, a warrant for distraint may be filed. The taxpayer may seek review of the determination pursuant to 15-1-211.

(2) A deficiency assessment must bear interest until paid at the rate of 1% a month or fraction of a month, computed from the original due date of the return.

NEW SECTION. **Section 12. Credit for overpayment -- interest on overpayment.** (1) If the department determines that the amount of tax, penalty, or interest due for any taxable period is less than the amount paid, the amount of the overpayment must be credited against any tax, penalty, or interest then due from the taxpayer and the balance refunded to the taxpayer or its successor through reorganization, merger, or consolidation or to its shareholders upon dissolution.

(2) Except as provided in subsection (3), interest must be allowed on overpayments at the same

rate as is charged on deficiency assessments provided in [section 11] beginning from the due date of the return or from the date of overpayment, whichever date is later, to the date on which the department approves refunding or crediting of the overpayment.

(3) (a) Interest may not accrue during any period in which the processing of a claim for refund is delayed more than 30 days by reason of failure of the taxpayer to furnish information requested by the department for the purpose of verifying the amount of the overpayment.

(b) Interest is not allowed:

(i) if the overpayment is refunded within 6 months from the date on which the return is due or from the date on which the return is filed, whichever is later; or

(ii) if the amount of interest is less than $1.

NEW SECTION. **Section 13. Warrant for distraint.** If all or part of the tax imposed by [sections 1 through 20] is not paid when due, the department may issue a warrant for distraint as provided in Title 15, chapter 1, part 7. The resulting lien has precedence over any other claim, lien, or demand filed and recorded after the warrant is issued.

NEW SECTION. **Section 14. Exemption from resource indemnity and ground water assessment tax.** A person who has paid the tax on oil and natural gas under the provisions of [sections 1 through 20] is exempt from the resource indemnity and ground water assessment tax.

NEW SECTION. **Section 15. Statute of limitations.** (1) Except as otherwise provided in this section, a deficiency may not be assessed with respect to the year for which a return is filed unless the notice of additional tax proposed to be assessed is mailed within 5 years from the date on which the return was filed. For the purposes of this section, a return filed before the last day prescribed for filing is considered as filed on the last day. If the taxpayer, before the expiration of the period prescribed for assessment of the tax, consents in writing to an assessment after that time, the tax may be assessed at any time prior to the expiration of the period agreed upon.

(2) A refund or credit may not be allowed or paid with respect to the year for which a return is filed after 5 years from the last day prescribed for filing the return or after 1 year from the date of the overpayment, whichever period is later, unless before the expiration of the period, the taxpayer files a claim

or the department of revenue has determined the existence of the overpayment and has approved the refund or credit. If the taxpayer has agreed in writing under the provisions of subsection (1) to extend the time within which the department may propose an additional assessment, the period within which a claim for refund or credit may be filed or a credit or refund allowed if a claim is not filed is automatically extended.

(3) If a return is required to be filed and the taxpayer fails to file the return, the tax may be assessed or an action to collect the tax may be brought at any time. If a return is required to be filed and the taxpayer files a fraudulent return, the 5-year period provided for in subsection (1) does not begin until discovery of the fraud by the department.

NEW SECTION. **Section 16. Rulemaking authority.** The department shall adopt rules that are necessary to implement and administer [sections 1 through 20].

NEW SECTION. **Section 17. Calculation of unit value.** For the purposes of distribution of oil and natural gas production taxes to county and school taxing units for production from pre-1985 wells, the department shall determine the unit value of oil and natural gas for each taxing unit as follows:

(1) The unit value for oil for each taxing unit is the quotient obtained by dividing the net proceeds taxes calculated on oil produced and sold in that taxing unit in calendar year 1988 by the number of barrels of oil produced in that taxing unit during 1988, excluding post-1985 wells.

(2) The unit value for natural gas is the quotient obtained by dividing the net proceeds taxes calculated on natural gas produced and sold in that taxing unit in calendar year 1988 by the number of cubic feet of natural gas produced in that taxing unit during 1988, excluding post-1985 wells.

NEW SECTION. **Section 18. Distribution of taxes.** (1) For each calendar quarter, the department of revenue shall determine the amount of tax, late payment interest, and penalty collected under [sections 1 through 20]. For purposes of distribution of the taxes to county and school taxing units, the department shall determine the amount of oil and natural gas production taxes paid on production from pre-1985 wells, post-1985 wells, and horizontally drilled wells located in the taxing unit.

(2) Except as provided in subsections (3) and (4), oil production taxes must be distributed as follows:

(a) The amount equal to 41.6% of the oil production taxes, including late payment interest and penalty, collected under [sections 1 through 20] must be distributed as provided in subsection (7).

(b) The remaining 58.4% of the oil production taxes, plus accumulated interest earned on the amount allocated under this subsection (2)(b), must be deposited in the agency fund in the state treasury and transferred to the county and school taxing units for distribution as provided in subsection (8).

(3) The amount equal to 100% of the oil production taxes, including late payment interest and penalty, collected from working interest owners on production from post-1985 wells occurring during the first 12 months of production must be distributed as provided in subsection (7).

(4) The amount equal to 100% of the oil production taxes, including late payment interest and penalty, collected under [sections 1 through 20] on production from horizontally drilled wells and on the incremental production from horizontally recompleted wells occurring during the first 18 months of production must be distributed as provided in subsection (7).

(5) Except as provided in subsection (6), natural gas production taxes must be allocated as follows:

(a) The amount equal to 14.6% of the natural gas production taxes, including late payment interest and penalty, collected under [sections 1 through 20] must be distributed as provided in subsection (7).

(b) The remaining 85.4% of the natural gas production taxes, plus accumulated interest earned on the amount allocated under this subsection (5)(b), must be deposited in the agency fund in the state treasury and transferred to the county and school taxing units for distribution as provided in subsection (8).

(6) The amount equal to 100% of the natural gas production taxes, including late payment interest and penalty, collected from working interest owners under [sections 1 through 20] on production from post-1985 wells occurring during the first 12 months of production must be distributed as provided in subsection (7).

(7) The department shall, in accordance with the provisions of 15-1-501(6), distribute the state portion of oil and natural gas production taxes, including late payment interest and penalty collected, as follows:

(a) 85% to the state general fund;

(b) 4.3% to the state special revenue fund for the purpose of paying expenses of the board as provided in 82-11-135; and

(c) 10.7% to be distributed as provided by 15-38-106(2).

(8) (a) For the purpose of distribution of the oil and natural gas production taxes from pre-1985

wells, the department shall each calendar quarter adjust the unit value determined under this subsection (8) according to the ratio that the oil and natural gas production taxes from pre-1985 wells collected during the calendar quarter for which the distribution occurs plus penalties and interest on delinquent oil and natural gas production taxes from pre-1985 wells bears to the total liability for the oil and natural gas production taxes from pre-1985 wells for the quarter for which the distribution occurs. The amount of oil and production taxes distributions must be calculated and distributed as follows:

(i) By the dates referred to in subsection (9), the department shall calculate and distribute to each eligible county the amount of oil and natural gas production taxes from pre-1985 wells for the quarter, determined by multiplying the unit value, as adjusted in this subsection (8)(a), by the units of production on which oil and natural gas production taxes from pre-1985 wells were owed for the calendar quarter for which the distribution occurs.

(ii) Any amount by which the total tax liability exceeds or is less than the total distributions determined in subsection (8)(a) must be calculated and distributed in the following manner:

(A) The excess amount or shortage must be divided by the total distribution determined for that period to obtain an excess or shortage percentage.

(B) The excess percentage must be multiplied by the distribution to each taxing unit, and this amount must be added to the distribution to each respective taxing unit.

(C) The shortage percentage must be multiplied by the distribution to each taxing unit, and this amount must be subtracted from the distribution to each respective taxing unit.

(b) Except as provided in subsection (8)(c), the county treasurer shall distribute the money received under subsection (9) from pre-1985 wells to the taxing units that levied mills in fiscal year 1990 against calendar year 1988 production in the same manner that all other property tax proceeds were distributed during fiscal year 1990 in the taxing unit, except that a distribution may not be made to a municipal taxing unit.

(c) The board of county commissioners of a county may direct the county treasurer to reallocate the distribution of oil and natural gas production tax money that would have gone to a taxing unit, as provided in subsection (8)(b), to another taxing unit or taxing units, other than an elementary school or high school, within the county under the following conditions:

(i) The county treasurer shall first allocate the oil and natural gas production taxes to the taxing units within the county in the same proportion that all other property tax proceeds were distributed in the

county in fiscal year 1990.

(ii) If the allocation in subsection (8)(c)(i) exceeds the total budget for a taxing unit, the commissioners may direct the county treasurer to allocate the excess to any taxing unit within the county.

(d) The board of trustees of an elementary or high school district may reallocate the oil and natural gas production taxes distributed to the district by the county treasurer under the following conditions:

(i) The district shall first allocate the oil and natural gas production taxes to the budgeted funds of the district in the same proportion that all other property tax proceeds were distributed in the district in fiscal year 1990.

(ii) If the allocation under subsection (8)(d)(i) exceeds the total budget for a fund, the trustees may allocate the excess to any budgeted fund of the school district.

(e) For all production from post-1985 wells and horizontally drilled wells completed after December 31, 1993, the county treasurer shall distribute oil and natural gas production taxes received under subsections (2)(b) and (5)(b) between county and school taxing units in the relative proportions required by the levies for state, county, and school district purposes in the same manner as property taxes were distributed in the preceding fiscal year.

(f) The allocation to the county in subsection (8)(e) must be distributed by the county treasurer in the relative proportions required by the levies for county taxing units and in the same manner as property taxes were distributed in the preceding fiscal year.

(g) The money distributed in subsection (8)(e) that is required for the county mill levies for school district retirement obligations and transportation schedules must be deposited to the funds established for these purposes.

(h) The oil and natural gas production taxes distributed under subsection (8)(b) that are required for the 6-mill university levy imposed under 20-25-423 and for the county equalization levies imposed under 20-9-331 and 20-9-333, as those sections read on July 1, 1989, must be remitted by the county treasurer to the state treasurer.

(i) The oil and natural gas production taxes distributed under subsection (8)(e) that are required for the 6-mill university levy imposed under 20-25-423, for the county equalization levies imposed under 20-9-331 and 20-9-333, and for the state equalization aid levy imposed under 20-9-360 must be remitted by the county treasurer to the state treasurer.

(j) The amount of oil and natural gas production taxes remaining after the treasurer has remitted

the amounts determined in subsections (8)(h) and (8)(i) is for the exclusive use and benefit of the county and school taxing units.

(9) The department shall remit the amounts to be distributed in subsection (8) to the county treasurer by the following dates:

(a) On or before August 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending March 31 of the current year.

(b) On or before November 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending June 30 of the current year.

(c) On or before February 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending September 30 of the previous year.

(d) On or before May 1 of each year, the department shall remit to the county treasurer oil and natural gas production tax payments received for the calendar quarter ending December 31 of the previous calendar year.

(10) The department shall provide to each county by May 31 of each year the amount of gross taxable value represented by all types of production taxed under [section 4] for the previous calendar year multiplied by 60%. The resulting value must be treated as taxable value for county classification purposes and for county bonding purposes.

NEW SECTION. **Section 19. Local government severance tax payments for calendar year 1995 production -- distribution of payments -- not subject to I-105 limitations.** (1) The local government severance tax imposed under 15-36-101, as that section read before [the effective date of this act], for calendar year 1995 production is due as follows:

(a) for oil and natural gas production occurring in the first calendar quarter of 1995, the tax is due May 31, 1996;

(b) for oil and natural gas production occurring in the second calendar quarter of 1995, the tax is due May 31, 1997;

(c) for oil and natural gas production occurring in the third calendar quarter of 1995, the tax is due May 31, 1998; and

(d) for oil and natural gas production occurring in the fourth calendar quarter of 1995, the tax is due May 31, 1999.

(2) (a) If the taxpayer pays the entire local government severance tax liability for calendar year 1995 on or before June 30, 1996, the taxpayer must receive a 6% reduction in the total local government severance tax liability.

(b) Any payment of local government severance taxes for calendar year 1995 made on or before June 30, 1997, does not accrue interest. Any payment of local government severance taxes for calendar year 1995 made after June 30, 1997, must accrue interest at the rate of 1% a month or fraction of a month from July 1, 1997, to the date of payment. Any payment for the third quarter of 1995 received after May 31, 1998, and any payment for the fourth quarter of 1995 received after May 31, 1999, is subject to the late payment penalty provisions in [section 8].

(c) In the case of the dissolution of the operator or a change in the operator of any lease or unit, any unpaid local government severance tax for calendar year 1995 becomes due on the date of dissolution or on the date of the change in operator. The operator is subject to the provisions of subsection (2)(a) regarding the 6% tax liability reduction or the provisions of subsection (2)(b) regarding interest and penalties.

(3) The department shall determine the amount of tax collected under subsections (1) and (2) from within each taxing unit.

(4) For purposes of the distribution of local government severance taxes collected under this section, the department shall use the unit value of oil and gas for each taxing unit as determined in [section 17].

(5) The local government severance tax must be deposited in the agency fund in the state treasury and transferred to the county for distribution as provided in subsection (6).

(6) For the purpose of the distribution of the local government severance tax for calendar year 1995 production, the department shall adjust the unit value determined under this section according to the ratio that the local government severance taxes collected during the quarters for which the distribution occurs plus penalties and interest on delinquent local government severance taxes bears to the total liability for local government severance taxes for the quarters for which the distribution occurs. The taxes must be calculated and distributed as follows:

(a) By July 31 of each of the years 1996, 1997, 1998, and 1999, the department shall calculate

and distribute to each eligible county the amount of local government severance tax for calendar year 1995 production, determined by multiplying the unit value, as adjusted in this subsection (6), by the units of production on which the local government severance tax was owed during calendar year 1995 production.

(b) Any amount by which the total tax liability exceeds or is less than the total distributions determined in subsection (6)(a) must be calculated and distributed in the following manner:

(i) The excess amount or shortage must be divided by the total distribution determined for that period to obtain an excess or shortage percentage.

(ii) The excess percentage must be multiplied by the distribution to each taxing unit, and this amount must be added to the distribution to each respective taxing unit.

(iii) The shortage percentage must be multiplied by the distribution to each taxing unit, and this amount must be subtracted from the distribution to each respective taxing unit.

(7) (a) The county treasurer shall distribute the money received under subsection (6) between the county and school taxing units. The distribution between county and school taxing units is the ratio of the number of mills levied for fiscal year 1990 against 1988 production in each taxing unit for the county and schools, including the county equalization levies that were in effect under 20-9-331 and 20-9-333 as those sections read on July 1, 1989, and the university 6-mill levy imposed under 20-25-423, except that a distribution may not be made to a municipal taxing unit or the state equalization aid levy imposed under 20-9-360. Distribution of money for the county equalization levies and the university levy must be remitted to the state by the county treasurer. The amounts distributed under subsections (7)(b) and (7)(c) are for the exclusive use of county and school taxing units.

(b) The county treasurer shall deposit the money from subsection (7)(a) allocated to county levies to the oil and gas tax accelerated fund.

(c) The trustees of a school district may allocate any payment received under subsection (7)(a) to any budget fund of the district or to the miscellaneous programs fund established in 20-9-507. The trustees shall direct the county treasurer to deposit the local government severance tax payments under this section to the funds of the district in accordance with the allocations determined by the trustees.

(8) Local government severance tax payments to county taxing units pursuant to this section are not subject to the limitations of Title 15, chapter 10, part 4. Payments of local government severance tax pursuant to this section may not be used for county classification purposes under 7-1-2111 and may not be considered in the determination of bonding limits under 7-7-2101, 7-7-2203, 7-14-2524, and

7-16-2327.

NEW SECTION. **Section 20. Oil and natural gas accelerated tax fund.** (1) The county commissioners of a county that receives tax distributions under [section 19] shall establish an oil and natural gas accelerated tax fund for the deposit of the distributions. The county commissioners may retain the money in the fund for any time period considered appropriate by the commissioners. Money retained in the fund may not be considered as fund balance for the purpose of reducing mill levies.

(2) Money may be expended from the fund for any purpose allowed by law.

(3) Money in the fund must be invested as provided by law. Interest and income earned on the investment of money in the fund must be credited to the fund.

(4) The oil and natural gas accelerated tax fund must be financially administered as a nonbudgeted fund under the provisions of Title 7, chapter 6, part 23.

Section 21. Section 7-1-2111, MCA, is amended to read:

"**7-1-2111. Classification of counties.** (1) For the purpose of regulating the compensation and salaries of all county officers, not otherwise provided for, and for fixing the penalties of officers' bonds, the counties of this state must be classified according to ~~that percentage of the true and full~~ the taxable valuation of the property in the counties upon which the tax levy is made, except for vehicles subject to taxation under 61-3-504(2), as follows:

(a) first class--all counties having a taxable valuation of $50 million or over;

(b) second class--all counties having a taxable valuation of more than $30 million and less than $50 million;

(c) third class--all counties having a taxable valuation of more than $20 million and less than $30 million;

(d) fourth class--all counties having a taxable valuation of more than $15 million and less than $20 million;

(e) fifth class--all counties having a taxable valuation of more than $10 million and less than $15 million;

(f) sixth class--all counties having a taxable valuation of more than $5 million and less than $10 million;

(g) seventh class--all counties having a taxable valuation of less than $5 million.

(2) As used in this section, taxable valuation means the taxable value of taxable property in the county as of the time of determination plus:

(a) that portion of the taxable value of the county on December 31, 1981, attributable to automobiles and trucks having a rated capacity of three-quarters of a ton or less;

(b) that portion of the taxable value of the county on December 31, 1989, attributable to automobiles and trucks having a rated capacity of more than three-quarters of a ton but less than or equal to 1 ton;

(c) ~~the amount of taxes levied on new production, production from horizontally completed wells, and incremental production, as provided in 15-23-607, divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%~~ the value provided by the department of revenue under [section 18(10)]; and

(d) ~~the amount of value represented by new production or production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%; and~~

~~(c)~~ 6% of the taxable value of the county on January 1 of each tax year."

Section 22. Section 7-7-2101, MCA, is amended to read:

"**7-7-2101. Limitation on amount of county indebtedness.** (1) A county may not become indebted in any manner or for any purpose to an amount, including existing indebtedness, in the aggregate exceeding 23% of the total of the taxable value of the property in the county subject to taxation, plus the ~~amount of taxes levied on new production, production from horizontally completed wells, and incremental production divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%~~ value provided by the department of revenue in [section 18(10)], as ascertained by the last assessment for state and county taxes previous to the incurring of the indebtedness.

(2) A county may not incur indebtedness or liability for any single purpose to an amount exceeding $500,000 without the approval of a majority of the electors of the county voting at an election to be

provided by law, except as provided in 7-21-3413 and 7-21-3414.

(3) This section does not apply to the acquisition of conservation easements as set forth in Title 76, chapter 6."

Section 23. Section 7-7-2203, MCA, is amended to read:

"7-7-2203. Limitation on amount of bonded indebtedness. (1) Except as provided in subsections (2) through (4), a county may not issue general obligation bonds for any purpose that, with all outstanding bonds and warrants except county high school bonds and emergency bonds, will exceed 11.25% of the total of the taxable value of the property in the county, plus the ~~amount of taxes levied on new production, production from horizontally completed wells, and incremental production divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%~~ value provided by the department of revenue under [section 18(10)], to be ascertained by the last assessment for state and county taxes prior to the proposed issuance of bonds.

(2) In addition to the bonds allowed by subsection (1), a county may issue bonds that, with all outstanding bonds and warrants, will not exceed 27.75% of the total of the taxable value of the property in the county subject to taxation, plus the ~~amount of taxes levied on new production, production from horizontally completed wells, and incremental production divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%~~ value provided by the department of revenue under [section 18(10)], when necessary to do so, ~~plus the value of any other production occurring after December 31, 1988, multiplied by 60%~~ for the purpose of acquiring land for a site for county high school buildings and for erecting or acquiring buildings on the site and furnishing and equipping the buildings for county high school purposes.

(3) In addition to the bonds allowed by subsections (1) and (2), a county may issue bonds for the construction or improvement of a jail that will not exceed 12.5% of the taxable value of the property in the county subject to taxation.

(4) The limitation in subsection (1) does not apply to refunding bonds issued for the purpose of paying or retiring county bonds lawfully issued prior to January 1, 1932, or to bonds issued for the

repayment of tax protests lost by the county."

Section 24. Section 7-14-2524, MCA, is amended to read:

"**7-14-2524. Limitation on amount of bonds issued -- excess void.** (1) Except as otherwise provided in 7-7-2203, 7-7-2204, and this section, a county may not issue bonds that, with all outstanding bonds and warrants except county high school bonds and emergency bonds, will exceed 11.25% of the total of the taxable value of the property in the county, plus the ~~amount of taxes levied on new production, production from horizontally completed wells, and incremental production divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%~~ value provided by the department of revenue under [section 18(10)]. The taxable property and the amount of taxes levied on new production, production from horizontally completed wells, and incremental production must be ascertained by the last assessment for state and county taxes prior to the issuance of the bonds.

(2) A county may issue bonds that, with all outstanding bonds and warrants except county high school bonds, will exceed 11.25% but will not exceed 22.5% of the total of the taxable value of the property, plus the ~~amount of taxes levied on new production, production from horizontally completed wells, and incremental production divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%~~ value provided by the department of revenue under [section 18(10)] when necessary for the purpose of replacing, rebuilding, or repairing county buildings, bridges, or highways that have been destroyed or damaged by an act of God or by a disaster, catastrophe, or accident.

(3) The value of the bonds issued and all other outstanding indebtedness of the county, except county high school bonds, may not exceed 22.5% of the total of the taxable value of the property within the county, plus the ~~amount of taxes levied on new production, production from horizontally completed wells, and incremental production divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production~~

~~from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%~~ value provided by the department of revenue under [section 18(10)], as ascertained by the last preceding general assessment."

Section 25. Section 7-14-2525, MCA, is amended to read:

"**7-14-2525. Refunding agreements and refunding bonds authorized.** (1) Whenever the total indebtedness of a county exceeds 22.5% of the total of the taxable value of the property therein, plus the ~~amount of taxes levied on new production, production from horizontally completed wells, and incremental production divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%~~ value provided by the department of revenue under [section 18(10)], and the board determines that the county is unable to pay the indebtedness in full, the board may:

(a) negotiate with the bondholders for an agreement whereby the bondholders agree to accept less than the full amount of the bonds and the accrued unpaid interest in satisfaction of the bonds;

(b) enter into the agreement;

(c) issue refunding bonds for the amount agreed upon.

(2) These bonds may be issued in more than one series, and each series may be either amortization or serial bonds.

(3) The plan agreed upon between the board and the bondholders must be embodied in full in the resolution providing for the issuance of the bonds."

Section 26. Section 7-16-2327, MCA, is amended to read:

"**7-16-2327. Indebtedness for park purposes.** (1) Subject to the provisions of subsection (2), a county park board, in addition to powers and duties now given under law, has the power and duty to contract an indebtedness in behalf of a county, upon the credit of the county, for the purposes of 7-16-2321(1) and (2).

(2) (a) The total amount of indebtedness authorized to be contracted in any form, including the

then-existing indebtedness, may not at any time exceed 13% of the total of the taxable value of the taxable property in the county, plus the ~~amount of taxes levied on new production, production from horizontally completed wells, and incremental production divided by the appropriate tax rates described in 15-23-607(2)(a), (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612, plus the value of any other production occurring after December 31, 1988, multiplied by 60%~~ value provided by the department of revenue under [section 18(10)], ascertained by the last assessment for state and county taxes previous to the incurring of the indebtedness.

(b) Money may not be borrowed on bonds issued for the purchase of lands and improving the land for any purpose until the proposition has been submitted to the vote of those qualified under the provisions of the state constitution to vote at the election in the affected county and a majority vote is cast in favor of the bonds."

Section 27. Section 15-1-501, MCA, is amended to read:

"**15-1-501. Disposition of money from certain designated license and other taxes.** (1) The state treasurer shall deposit to the credit of the state general fund in accordance with the provisions of subsection (6) all money received from the collection of:

(a) fees from driver's licenses, motorcycle endorsements, and duplicate driver's licenses as provided in 61-5-121;

(b) electrical energy producer's license taxes under chapter 51;

~~(c) severance taxes allocated to the general fund under chapter 36;~~

~~(d)~~(c) liquor license taxes under Title 16;

~~(e)~~(d) telephone company license taxes under chapter 53; and

~~(f)~~(e) inheritance and estate taxes under Title 72, chapter 16.

(2) All money received from the collection of income taxes under chapter 30 of this title must, in accordance with the provisions of subsection (6), be deposited as follows:

(a) 91.3% of the taxes to the credit of the state general fund;

(b) 8.7% of the taxes to the credit of the debt service account for long-range building program bonds as described in 17-5-408; and

(c) all interest and penalties to the credit of the state general fund.

(3) All money received from the collection of corporation license and income taxes under chapter 31 of this title, except as provided in 15-31-702, must, in accordance with the provisions of subsection (6), be deposited as follows:

(a) 89.5% of the taxes to the credit of the state general fund;

(b) 10.5% of the taxes to the credit of the debt service account for long-range building program bonds as described in 17-5-408; and

(c) all interest and penalties to the credit of the state general fund.

(4) The department of revenue shall also deposit to the credit of the state general fund all money received from the collection of license taxes, fees, and all net revenues and receipts from all other sources under the operation of the Montana Alcoholic Beverage Code.

(5) ~~After the distribution provided for in 15-36-112, the remainder of the oil severance tax collections~~ Oil and natural gas production taxes allocated under [section 18(7)(a)] must be deposited in the general fund.

(6) Notwithstanding any other provision of law, the distribution of tax revenue must be made according to the provisions of the law governing allocation of the tax that were in effect for the period in which the tax revenue was recorded for accounting purposes. Tax revenue must be recorded as prescribed by the department of administration, pursuant to 17-1-102(2) and (5), in accordance with generally accepted accounting principles.

(7) All refunds of taxes must be attributed to the funds in which the taxes are currently being recorded. All refunds of interest and penalties must be attributed to the funds in which the interest and penalties are currently being recorded."

Section 28. Section 15-6-208, MCA, is amended to read:

"**15-6-208. Mineral exemptions.** (1) One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation.

(2) Metal mines producing less than 20,000 tons of ore in a taxable year are exempt from property taxation on one-half of the merchantable value.

~~(3) (a) New production, as defined in 15-23-601, is exempt from taxation for the first 12 months of production as provided in 15-23-612.~~

~~(b) Production from horizontally completed wells, as defined in 15-23-601, is exempt from taxation~~

~~for the first 18 months of production as provided in 15-23-612.~~

~~(4)~~(3) The first 1,000 tons of travertine and building stone extracted from a mine in a tax year are exempt from property taxation."

Section 29. Section 15-16-102, MCA, is amended to read:

"15-16-102. Time for payment -- penalty for delinquency. Except as provided in 15-16-802 and 15-16-803 and unless suspended or canceled under the provisions of Title 15, chapter 24, part 17, all taxes levied and assessed in the state of Montana, except assessments made for special improvements in cities and towns payable under 15-16-103 ~~and assessments made on interim production and new production as provided in Title 15, chapter 23, part 6, and payable under 15-16-121~~, ~~shall be~~ are payable as follows:

(1) One-half of the taxes are payable on or before 5 p.m. on November 30 of each year or within 30 days after the tax notice is postmarked, whichever is later, and one-half are payable on or before 5 p.m. on May 31 of each year.

(2) Unless one-half of the taxes are paid on or before 5 p.m. on November 30 of each year or within 30 days after the tax notice is postmarked, whichever is later, ~~then~~ the amount ~~so~~ payable ~~shall become~~ is delinquent and ~~shall draw~~ draws interest at the rate of 5/6 of 1% ~~per~~ a month from and after the delinquency until paid and 2% ~~shall~~ must be added to the delinquent taxes as a penalty.

(3) All taxes due and not paid on or before 5 p.m. on May 31 of each year ~~shall be~~ are delinquent and ~~shall~~ draw interest at the rate of 5/6 of 1% ~~per~~ a month from and after the delinquency until paid and 2% ~~shall~~ must be added to the delinquent taxes as a penalty.

(4) If the date on which taxes are due falls on a holiday or Saturday, taxes may be paid without penalty or interest on or before 5 p.m. of the next business day in accordance with 1-1-307.

(5) A taxpayer may pay ~~his~~ current year taxes without paying delinquent taxes. The county treasurer ~~must~~ shall accept a partial payment equal to the delinquent taxes, including penalty and interest, for one or more full taxable years, provided both halves of the current tax year have been paid. Payment of taxes for delinquent taxes must be applied to the taxes that have been delinquent the longest. The payment of the current tax year is not a redemption of the property tax lien for any delinquent tax year.

(6) The penalty and interest on delinquent assessment payments for specific parcels of land may be waived by resolution of the city council. A copy of the resolution must be certified to the county treasurer."

Section 30. Section 15-23-103, MCA, is amended to read:

"**15-23-103. Due date of reports and returns -- extensions.** (1) Except as provided in subsection (2) ~~and 15-23-602~~, each report or return described in 15-23-301, 15-23-402, 15-23-502, 15-23-701, or 15-23-517 must be delivered to the department on or before March 31 each year.

(2) Each report or return for a natural gas or oil pipeline described in 15-23-301 must be delivered to the department on or before April 15 each year.

(3) Each report described in 15-23-201, 15-23-212, 15-23-515, or 15-23-516 must be delivered to the department before April 15 each year.

(4) The department may for good cause extend the time for filing a return or report for not more than 30 days."

Section 31. Section 15-23-104, MCA, is amended to read:

"**15-23-104. Failure to file -- estimate by department -- penalty.** (1) If any person fails to file a report or return within the time established in 15-23-103 or by a later date approved by the department, the department shall estimate the value of the property that should have been reported on the basis of the best available information. In estimating the value of the net proceeds of mines, the department shall proceed under 15-23-506, and in estimating the value of the gross proceeds of coal mines, the department shall proceed under 15-35-107. In estimating the value of all other property subject to assessment under parts 2 through 4 of this chapter, the department shall proceed under 15-1-303. In estimating value under this section, the department may subpoena a person or the person's agent as specified in 15-1-302. An assessment pursuant to parts 5, ~~through~~ 7, and 8 of this chapter based on estimated value or imputed value is subject to review under 15-1-211. For each month or part of a month that a report is delinquent, the department shall impose and collect a $25 penalty, with the total not to exceed $200, and shall deposit the penalty to the credit of the general fund. The department shall assess a penalty of 1% of the tax due for each month or part of a month that the report is delinquent. The department shall notify the county treasurer of each affected county of the amount of the penalty, and the treasurer shall collect the penalty in the same manner as the taxes to which the penalty applies.

(2) For a delinquency in reporting under 15-23-212, the department shall assess a penalty of 1% of the tax due for each month or part of a month that the report is delinquent."

Section 32. Section 15-23-106, MCA, is amended to read:

"**15-23-106. Report to the counties.** (1) On or before July 1, the department shall prepare for each county a statement listing:

(a) the assessed value of railroad property, as determined under 15-23-202, apportioned to the county, including the length or other description of the property;

(b) the assessed value of utility property, as determined under 15-23-303, apportioned to the county, including the length or other description of the property;

(c) the assessed value of property of airline companies, as determined under 15-23-403, apportioned to the county; 90% of the value of the property of airline companies apportioned to any county by reason of a state airport being located in the county must be stated separately from the remaining assessed value of the property of airline companies apportioned to the county;

(d) the assessed value of the net proceeds and royalties from mines ~~and oil and gas wells~~ in the county, as determined under 15-23-503, 15-23-505, 15-23-515, 15-23-516, and 15-23-517~~, 15-23-603, and 15-23-605~~; and

(e) the assessed value of the gross proceeds from coal mines, as described in 15-23-701.

(2) The department shall enter the reported assessed values in the property tax record for the county."

Section 33. Section 15-23-115, MCA, is amended to read:

"**15-23-115. Interest.** If the department determines that a taxpayer has incorrectly reported a value under 15-23-502, 15-23-515, 15-23-516, 15-23-517, ~~15-23-602,~~ 15-23-701, or 15-23-802 and if an additional tax is due, there must be added to the tax until paid in full interest at the rate of 1% a month or fraction of a month from the date the original tax was due and payable. A taxpayer subject to imposition of interest pursuant to this section is not subject to the penalty and interest provisions contained in 15-16-102."

Section 34. Section 15-38-105, MCA, is amended to read:

"**15-38-105. Report of gross yield from mines.** A person who engages in or carries on the business of mining, extracting, or producing a mineral from any quartz vein or lode, placer claim, dump or tailings, or other place or source shall file an annual statement of gross yield of the mineral from each mine owned

or worked by that person during the calendar year. This statement must be in the form prescribed by the department and ~~shall~~ must be signed by the person or the manager, superintendent, agent, president, or vice-president of the corporation, association, or partnership, if any. Metal producers shall deliver the statement to the department on or before March 31 following the end of the calendar year. Mineral producers~~, including oil and gas producers,~~ shall deliver the statement to the department on or before the 60th day following the end of the calendar year. The statement ~~shall~~ must show the following:

(1) the name and address of the owner or lessee or operator of the mine;

(2) the description and location of the mine;

(3) the quantity of minerals extracted, produced, and treated or sold from the mine during the period covered by the statement;

(4) the amount and character of the mineral and the total yield of the mineral from the mine in constituents of commercial value; that is to say, the number of ounces of gold or silver, pounds of copper or lead, tons of coal, ~~barrels of petroleum or other crude or mineral oil, cubic feet of natural gas,~~ or other commercially valuable constituents of the ores or mineral products or deposits yielded to the person engaged in mining measured by standard units of measurement;

(5) the gross yield or value in dollars and cents."

Section 35. Section 15-38-121, MCA, is amended to read:

"**15-38-121. Certain royalties exempt.** Exempt from taxation are royalties received by:

(1) an Indian tribe with respect to ~~on-reservation oil and gas~~ mineral production pursuant to a lease entered into under the Indian Mineral Leasing Act of 1938 ~~(~~25 U.S.C. 396a-396g ~~(1983))~~;

(2) the United States as trustee for individual Indians; and

(3) the United States, the state of Montana, or a county or municipal government."

Section 36. Section 15-38-202, MCA, is amended to read:

"**15-38-202. (Temporary) Investment of resource indemnity trust fund -- expenditure -- minimum balance.** (1) All money paid into the resource indemnity trust fund, including money payable into the fund under the provisions of 15-37-117, must be invested at the discretion of the board of investments. All the net earnings accruing to the resource indemnity trust fund must annually be added to the trust fund until it has reached the sum of $10 million. Thereafter, only the net earnings may be appropriated and expended

until the fund reaches $100 million. Thereafter, all net earnings and all receipts must be appropriated by the legislature and expended, provided that the balance in the fund may never be less than $100 million.

(2) (a) At the beginning of each biennium, there is allocated from the interest income of the resource indemnity trust fund:

(i) an amount not to exceed $175,000 to the environmental contingency account pursuant to the conditions of 75-1-1101;

(ii) an amount not to exceed $50,000 to the oil and gas production damage mitigation account pursuant to the conditions of 82-11-161;

(iii) beginning in fiscal year 1995, $240,000, which is statutorily appropriated, as provided in 17-7-502, from the renewable resource grant and loan program state special revenue account to support the operations of the environmental science-water quality instructional programs at northern Montana college to be used for support costs, for matching funds necessary to attract additional funds to further expand statewide impact, and for enhancement of the facilities related to the programs;

(iv) $1,025,000 to be deposited into the renewable resource grant and loan program state special revenue account, created by 85-1-604, for the purpose of making grants;

(v) $2,200,000 to be deposited into the reclamation and development grants state special revenue account, created by 90-2-1104, for the purpose of making grants; and

(vi) ~~beginning in fiscal year 1994,~~ $250,000 to be deposited into the water storage state special revenue account created by 85-1-631.

(b) The remainder of the interest income is allocated as follows:

(i) Thirty-eight percent of the interest income of the resource indemnity trust fund must be allocated to the renewable resource grant and loan program state special revenue account created by 85-1-604.

(ii) Fifteen percent of the interest income of the resource indemnity trust fund must be allocated to the hazardous waste/CERCLA special revenue account provided for in 75-10-621.

(iii) Forty-one and one-half percent of the interest income from the resource indemnity trust fund must be allocated to the reclamation and development grants account provided for in 90-2-1104.

(iv) Five and one-half percent of the interest income of the resource indemnity trust fund must be allocated to the environmental quality protection fund provided for in 75-10-704.

(3) Any formal budget document prepared by the legislature or the executive branch that proposes

to appropriate funds from the resource indemnity trust interest account other than as provided for by the allocations in subsection (2) must specify the amount of money from each allocation that is proposed to be diverted and the proposed use of the diverted funds. A formal budget document includes a printed and publicly distributed budget proposal or recommendation, an introduced bill, or a bill developed during the legislative appropriation process or otherwise during a legislative session.

15-38-202. (Effective July 1, 1995) Investment of resource indemnity trust fund -- expenditure -- minimum balance. (1) All money paid into the resource indemnity trust fund, including money payable into the fund under the provisions of 15-37-117 and [section 18], must be invested at the discretion of the board of investments. All the net earnings accruing to the resource indemnity trust fund must annually be added to the trust fund until it has reached the sum of $10 million. Thereafter, only the net earnings may be appropriated and expended until the fund reaches $100 million. Thereafter, all net earnings and all receipts must be appropriated by the legislature and expended, provided that the balance in the fund may never be less than $100 million.

(2) (a) At the beginning of each biennium, there is allocated from the interest income of the resource indemnity trust fund:

(i) an amount not to exceed $175,000 to the environmental contingency account pursuant to the conditions of 75-1-1101;

(ii) an amount not to exceed $50,000 to the oil and gas production damage mitigation account pursuant to the conditions of 82-11-161;

(iii) ~~beginning in fiscal year 1995,~~ $240,000, which is statutorily appropriated, as provided in 17-7-502, from the renewable resource grant and loan program state special revenue account to support the operations of the environmental science-water quality instructional programs at northern Montana college to be used for support costs, for matching funds necessary to attract additional funds to further expand statewide impact, and for enhancement of the facilities related to the programs;

(iv) beginning in fiscal year 1996, $2 million to be deposited into the renewable resource grant and loan program state special revenue account, created by 85-1-604, for the purpose of making grants;

(v) beginning in fiscal year 1996, $3 million to be deposited into the reclamation and development grants state special revenue account, created by 90-2-1104, for the purpose of making grants; and

(vi) beginning in fiscal year 1996, $500,000 to be deposited into the water storage state special revenue account created by 85-1-631.

(b) The remainder of the interest income is allocated as follows:

(i) Thirty-six percent of the interest income of the resource indemnity trust fund must be allocated to the renewable resource grant and loan program state special revenue account created by 85-1-604.

(ii) Eighteen percent of the interest income of the resource indemnity trust fund must be allocated to the hazardous waste/CERCLA special revenue account provided for in 75-10-621.

(iii) Forty percent of the interest income from the resource indemnity trust fund must be allocated to the reclamation and development grants account provided for in 90-2-1104.

(iv) Six percent of the interest income of the resource indemnity trust fund must be allocated to the environmental quality protection fund provided for in 75-10-704.

(3) Any formal budget document prepared by the legislature or the executive branch that proposes to appropriate funds from the resource indemnity trust interest account other than as provided for by the allocations in subsection (2) must specify the amount of money from each allocation that is proposed to be diverted and the proposed use of the diverted funds. A formal budget document includes a printed and publicly distributed budget proposal or recommendation, an introduced bill, or a bill developed during the legislative appropriation process or otherwise during a legislative session."

Section 37. Section 17-7-502, MCA, is amended to read:

"**17-7-502. Statutory appropriations -- definition -- requisites for validity.** (1) A statutory appropriation is an appropriation made by permanent law that authorizes spending by a state agency without the need for a biennial legislative appropriation or budget amendment.

(2) Except as provided in subsection (4), to be effective, a statutory appropriation must comply with both of the following provisions:

(a) The law containing the statutory authority must be listed in subsection (3).

(b) The law or portion of the law making a statutory appropriation must specifically state that a statutory appropriation is made as provided in this section.

(3) The following laws are the only laws containing statutory appropriations: 2-9-202; 2-17-105; 2-18-812; 3-5-901; 5-13-403; 10-3-203; 10-3-312; 10-3-314; 10-4-301; 15-1-111; 15-23-706; 15-25-123; 15-31-702; ~~15-36-112;~~ 15-37-117; 15-38-202; 15-65-121; 15-70-101; 16-1-404; 16-1-410; 16-1-411; 17-3-106; 17-3-212; 17-5-404; 17-5-424; 17-5-704; 17-5-804; 17-6-101; 17-6-201; 17-6-409; 17-7-304; 18-11-112; 19-2-502; 19-6-709; 19-9-1007; 19-15-101; 19-17-301; 19-18-512; 19-18-513;

19-18-606; 19-19-205; 19-19-305; 19-19-506; 20-4-109; 20-8-111; 20-9-361; 20-26-1403; 20-26-1503; 23-2-823; 23-5-136; 23-5-306; 23-5-409; 23-5-610; 23-5-612; 23-5-631; 23-7-301; 23-7-402; 27-12-206; 32-1-537; 37-43-204; 37-51-501; 39-71-503; 39-71-907; 39-71-2321; 39-71-2504; 44-12-206; 44-13-102; 50-5-232; 50-40-206; 53-6-150; 53-24-206; 60-2-220; 61-2-107; 67-3-205; 75-1-1101; 75-5-507; 75-5-1108; 75-11-313; 76-12-123; 77-1-808; 80-2-103; 80-2-222; 80-4-416; 80-11-310; 81-5-111; 82-11-136; 82-11-161; 85-1-220; 85-20-402; 90-3-301; 90-4-215; 90-6-331; 90-7-220; 90-9-306; and 90-14-107.

(4) There is a statutory appropriation to pay the principal, interest, premiums, and costs of issuing, paying, and securing all bonds, notes, or other obligations, as due, that have been authorized and issued pursuant to the laws of Montana. Agencies that have entered into agreements authorized by the laws of Montana to pay the state treasurer, for deposit in accordance with 17-2-101 through 17-2-107, as determined by the state treasurer, an amount sufficient to pay the principal and interest as due on the bonds or notes have statutory appropriation authority for the payments. (In subsection (3): pursuant to sec. 7, Ch. 567, L. 1991, the inclusion of 19-6-709 terminates upon death of last recipient eligible for supplemental benefit; and pursuant to sec. 15, Ch. 534, L. 1993, the inclusion of 90-14-107 terminates July 1, 1995.) "

Section 38. Section 20-9-104, MCA, is amended to read:

"**20-9-104. General fund operating reserve.** (1) At the end of each school fiscal year, the trustees of each district shall designate the portion of the general fund end-of-the-year fund balance that is to be earmarked as operating reserve for the purpose of paying general fund warrants issued by the district from July 1 to November 30 of the ensuing school fiscal year. Except as provided in subsections (5) and (6), the amount of the general fund balance that is earmarked as operating reserve may not exceed 10% of the final general fund budget for the ensuing school fiscal year.

(2) The amount held as operating reserve may not be used for property tax reduction in the manner permitted by 20-9-141(1)(b) for other receipts.

(3) Excess reserves as provided in subsection (5) may be appropriated to reduce the BASE budget levy, the over-BASE budget levy, or the additional levy provided by 20-9-353, except that districts with a balance on June 30, 1993, in the excess reserve account for Public Law 81-874 funds shall transfer the June 30, 1993, balance to the impact aid fund established in 20-9-514.

(4) Any portion of the general fund end-of-the-year fund balance that is not reserved under subsection (2) or reappropriated under subsection (3) is fund balance reappropriated and must be used for property tax reduction as provided in 20-9-141(1)(b).

(5) For fiscal year 1994 and subsequent fiscal years, the limitation of subsection (1) does not apply when the amount in excess of the limitation is equal to or less than the unused balance of any amount received:

(a) in settlement of tax payments protested in a prior school fiscal year;

(b) in taxes from a prior school fiscal year as a result of a tax audit by the department of revenue or its agents; ~~and~~

(c) in delinquent taxes from a prior school fiscal year; and

(d) as a local government severance tax payment for calendar year 1995 production as provided in [section 19].

(6) The limitation of subsection (1) does not apply when the amount earmarked as operating reserve is $10,000 or less."

Section 39. Section 20-9-141, MCA, is amended to read:

"**20-9-141. Computation of general fund net levy requirement by county superintendent.** (1) The county superintendent shall compute the levy requirement for each district's general fund on the basis of the following procedure:

(a) Determine the funding required for the district's final general fund budget less the sum of direct state aid and the special education allowable cost payment for the district by totaling:

(i) the district's nonisolated school BASE budget requirement to be met by a district levy as provided in 20-9-303; and

(ii) any general fund budget amount adopted by the trustees of the district under the provisions of 20-9-308 and 20-9-353, including any additional funding for a general fund budget that exceeds the maximum general fund budget.

(b) Determine the money available for the reduction of the property tax on the district for the general fund by totaling:

(i) general fund balance reappropriated, as established under the provisions of 20-9-104;

(ii) amounts received in the last fiscal year for which revenue reporting was required for each of

the following:

(A) tuition payments for out-of-district pupils under the provisions of 20-5-321 through 20-5-323;

(B) revenue from property taxes and fees imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204;

(C) ~~net proceeds taxes for new production, production from horizontally completed wells, and incremental production, as defined in 15-23-601~~ oil and natural gas production taxes;

(D) interest earned by the investment of general fund cash in accordance with the provisions of 20-9-213(4);

(E) revenue from corporation license taxes collected from financial institutions under the provisions of 15-31-702; and

(F) any other revenue received during the school fiscal year that may be used to finance the general fund, excluding any guaranteed tax base aid; and

(iii) ~~(A) pursuant to subsection (4), anticipated revenue from local government severance taxes as provided in 15-36-112; and~~

~~(B)~~ pursuant to subsection (4), anticipated revenue from coal gross proceeds under 15-23-703.

(c) Notwithstanding the provisions of subsection (2), subtract the money available to reduce the property tax required to finance the general fund that has been determined in subsection (1)(b) from any general fund budget amount adopted by the trustees of the district, up to the BASE budget amount, to determine the general fund BASE budget levy requirement.

(d) Subtract any amount remaining after the determination in subsection (1)(c) from any additional funding requirement to be met by an over-BASE budget amount, a district levy as provided in 20-9-303, and any additional financing as provided in 20-9-353 to determine any additional general fund levy requirements.

(2) The county superintendent shall calculate the number of mills to be levied on the taxable property in the district to finance the general fund levy requirement for any amount that does not exceed the BASE budget amount for the district by dividing the amount determined in subsection (1)(c) by the sum of:

(a) the amount of guaranteed tax base aid that the district will receive for each mill levied, as certified by the superintendent of public instruction; and

(b) the taxable valuation of the district divided by 1,000.

(3) The net general fund levy requirement determined in subsections (1)(c) and (1)(d) must be reported to the county commissioners on the fourth Monday of August by the county superintendent as the general fund net levy requirement for the district, and a levy must be set by the county commissioners in accordance with 20-9-142.

(4) For each school district, the department of revenue shall calculate and report to the county superintendent the amount of revenue anticipated for the ensuing fiscal year from ~~local government severance taxes, as provided in 15-36-112, and from~~ revenue from coal gross proceeds under 15-23-703."

Section 40. Section 20-9-161, MCA, is amended to read:

"**20-9-161. Definition of budget amendment for budgeting purposes.** As used in this title, unless the context clearly indicates otherwise, the term "budget amendment" for the purpose of school budgeting means an amendment to an adopted budget of the district for the following reasons:

(1) an increase in the enrollment of an elementary or high school district that is beyond what could reasonably have been anticipated at the time of the adoption of the budget for the current school fiscal year whenever, because of the enrollment increase, the district's budget for any or all of the regularly budgeted funds does not provide sufficient financing to properly maintain and support the district for the entire current school fiscal year;

(2) the destruction or impairment of any school property necessary to the maintenance of the school, by fire, flood, storm, riot, insurrection, or act of God, to an extent rendering school property unfit for its present school use;

(3) a judgment for damages against the district issued by a court after the adoption of the budget for the current year;

(4) an enactment of legislation after the adoption of the budget for the current year that imposes an additional financial obligation on the district;

(5) the receipt of:

(a) a settlement of taxes protested in a prior school fiscal year; ~~or~~

(b) taxes from a prior school fiscal year as the result of a tax audit by the department of revenue or its agents; ~~or~~

(c) delinquent taxes from a prior school fiscal year; ~~and~~ or

(d) local government severance tax payments for calendar year 1995 production as provided in

[section 19(7)]; and

(e) a determination by the trustees that it is necessary to expend all or a portion of the taxes received under subsection (5)(a), (5)(b), ~~or~~ (5)(c), or (5)(d) for a project or projects that were deferred from a previous budget of the district as a result of the protested taxes; or

(6) any other unforeseen need of the district that cannot be postponed until the next school year without dire consequences affecting the safety of the students and district employees or the educational functions of the district."

Section 41. Section 20-9-331, MCA, is amended to read:

"**20-9-331. Basic county tax and other revenues for county equalization of the elementary district BASE funding program.** (1) The county commissioners of each county shall levy an annual basic tax of 33 mills on the dollar of the taxable value of all taxable property within the county, except for property subject to a tax or fee under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204, for the purposes of local and state BASE funding program support. The revenue collected from this levy must be apportioned to the support of the elementary BASE funding programs of the school districts in the county and to the state special revenue fund, state equalization aid account, in the following manner:

(a) In order to determine the amount of revenue raised by this levy that is retained by the county, the sum of the estimated revenue identified in subsection (2) must be subtracted from the total of the BASE funding programs of all elementary districts of the county.

(b) If the basic levy and other revenue prescribed by this section produce more revenue than is required to repay a state advance for county equalization, the county treasurer shall remit the surplus funds to the state treasurer for deposit to the state special revenue fund, state equalization aid account, immediately upon occurrence of a surplus balance and each subsequent month thereafter, with any final remittance due no later than June 20 of the fiscal year for which the levy has been set.

(2) The revenue realized from the county's portion of the levy prescribed by this section and the revenue from the following sources must be used for the equalization of the elementary BASE funding program of the county as prescribed in 20-9-335, and a separate accounting must be kept of the revenue by the county treasurer in accordance with 20-9-212(1):

(a) the portion of the federal Taylor Grazing Act funds distributed to a county and designated for the common school fund under the provisions of 17-3-222;

(b) the portion of the federal flood control act funds distributed to a county and designated for expenditure for the benefit of the county common schools under the provisions of 17-3-232;

(c) all money paid into the county treasury as a result of fines for violations of law, except money paid to a justice's court, and the use of which is not otherwise specified by law;

(d) any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's accounts for the various sources of revenue established or referred to in this section;

(e) any federal or state money distributed to the county as payment in lieu of property taxation, including federal forest reserve funds allocated under the provisions of 17-3-213;

(f) gross proceeds taxes from coal under 15-23-703;

(g) ~~net proceeds taxes for new production, production from horizontally completed wells, and incremental production, as defined in 15-23-601, and local government severance taxes on any other production occurring after December 31, 1988~~ oil and natural gas production taxes; ~~and~~

(h) anticipated local government severance tax payments for calendar year 1995 production as provided in [section 19]; and

(i) anticipated revenue from property taxes and fees imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204."

Section 42. Section 20-9-333, MCA, is amended to read:

"**20-9-333. Basic special levy and other revenues for county equalization of high school district BASE funding program.** (1) The county commissioners of each county shall levy an annual basic special tax for high schools of 22 mills on the dollar of the taxable value of all taxable property within the county, except for property subject to a tax or fee under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204, for the purposes of local and state BASE funding program support. The revenue collected from this levy must be apportioned to the support of the BASE funding programs of high school districts in the county and to the state special revenue fund, state equalization aid account, in the following manner:

(a) In order to determine the amount of revenue raised by this levy that is retained by the county, the sum of the estimated revenue identified in subsection (2) must be subtracted from the sum of the county's high school tuition obligation and the total of the BASE funding programs of all high school districts of the county.

(b) If the basic levy and other revenue prescribed by this section produce more revenue than is

required to repay a state advance for county equalization, the county treasurer shall remit the surplus funds to the state treasurer for deposit to the state special revenue fund, state equalization aid account, immediately upon occurrence of a surplus balance and each subsequent month thereafter, with any final remittance due no later than June 20 of the fiscal year for which the levy has been set.

(2) The revenue realized from the county's portion of the levy prescribed in this section and the revenue from the following sources must be used for the equalization of the high school BASE funding program of the county as prescribed in 20-9-335, and a separate accounting must be kept of the revenue by the county treasurer in accordance with 20-9-212(1):

(a) any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's accounts for the various sources of revenue established in this section;

(b) any federal or state money distributed to the county as payment in lieu of property taxation, including federal forest reserve funds allocated under the provisions of 17-3-213;

(c) gross proceeds taxes from coal under 15-23-703;

(d) ~~net proceeds taxes for new production, production from horizontally completed wells, and incremental production, as defined in 15-23-601, and local government severance taxes on any other production occurring after December 31, 1988~~ oil and natural gas production taxes; ~~and~~

(e) anticipated local government severance tax payments for calendar year 1995 production as provided in [section 19]; and

~~(e)~~(f) anticipated revenue from property taxes and fees imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204."

Section 43. Section 20-9-501, MCA, is amended to read:

"**20-9-501. Retirement fund.** (1) The trustees of a district employing personnel who are members of the teachers' retirement system or the public employees' retirement system or who are covered by unemployment insurance or who are covered by any federal social security system requiring employer contributions shall establish a retirement fund for the purposes of budgeting and paying the employer's contributions to the systems. The district's contribution for each employee who is a member of the teachers' retirement system must be calculated in accordance with Title 19, chapter 20, part 6. The district's contribution for each employee who is a member of the public employees' retirement system must be calculated in accordance with 19-3-316. The district's contributions for each employee covered by any

federal social security system must be paid in accordance with federal law and regulation. The district's contribution for each employee who is covered by unemployment insurance must be paid in accordance with Title 39, chapter 51, part 11.

(2) The trustees of a district required to make a contribution to a system referred to in subsection (1) shall include in the retirement fund of the preliminary budget the estimated amount of the employer's contribution. After the final retirement fund budget has been adopted, the trustees shall pay the employer contributions to the systems in accordance with the financial administration provisions of this title.

(3) When the final retirement fund budget has been adopted, the county superintendent shall establish the levy requirement by:

(a) determining the sum of the money available to reduce the retirement fund levy requirement by adding:

(i) any anticipated money that may be realized in the retirement fund during the ensuing school fiscal year, including anticipated revenue from property taxes and fees imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204;

(ii) ~~net proceeds taxes and local government severance taxes on any other oil and gas production occurring after December 31, 1988~~ oil and natural gas production taxes;

(iii) anticipated local government severance tax payments for calendar year 1995 production as provided in [section 19];

(iv) coal gross proceeds taxes under 15-23-703;

~~(iv)~~(v) any fund balance available for reappropriation as determined by subtracting the amount of the end-of-the-year fund balance earmarked as the retirement fund operating reserve for the ensuing school fiscal year by the trustees from the end-of-the-year fund balance in the retirement fund. The retirement fund operating reserve may not be more than 35% of the final retirement fund budget for the ensuing school fiscal year and must be used for the purpose of paying retirement fund warrants issued by the district under the final retirement fund budget; and

~~(v)~~(vi) any other revenue anticipated that may be realized in the retirement fund during the ensuing school fiscal year, excluding any guaranteed tax base aid.

(b) notwithstanding the provisions of subsection (8), subtracting the money available for reduction of the levy requirement, as determined in subsection (3)(a), from the budgeted amount for expenditures in the final retirement fund budget.

(4) The county superintendent shall:

(a) total the net retirement fund levy requirements separately for all elementary school districts, all high school districts, and all community college districts of the county, including any prorated joint district or special education cooperative agreement levy requirements; and

(b) report each levy requirement to the county commissioners on the fourth Monday of August as the respective county levy requirements for elementary district, high school district, and community college district retirement funds.

(5) The county commissioners shall fix and set the county levy in accordance with 20-9-142.

(6) The net retirement fund levy requirement for a joint elementary district or a joint high school district must be prorated to each county in which a part of the district is located in the same proportion as the district ANB of the joint district is distributed by pupil residence in each county. The county superintendents of the counties affected shall jointly determine the net retirement fund levy requirement for each county as provided in 20-9-151.

(7) The net retirement fund levy requirement for districts that are members of special education cooperative agreements must be prorated to each county in which the district is located in the same proportion as the special education cooperative budget is prorated to the member school districts. The county superintendents of the counties affected shall jointly determine the net retirement fund levy requirement for each county in the same manner as provided in 20-9-151 and the county commissioners shall fix and levy the net retirement fund levy for each county in the same manner as provided in 20-9-152.

(8) The county superintendent shall calculate the number of mills to be levied on the taxable property in the county to finance the retirement fund net levy requirement by dividing the amount determined in subsection (4)(a) by the sum of:

(a) the amount of guaranteed tax base aid that the county will receive for each mill levied, as certified by the superintendent of public instruction; and

(b) the taxable valuation of the district divided by 1,000."

Section 44. Section 20-9-507, MCA, is amended to read:

"20-9-507. Miscellaneous programs fund. (1) The trustees of a district receiving money from local, state, federal, or other sources provided in 20-5-324 other than money under the provisions of Title I of Public Law 81-874 or federal money designated for deposit in a specific fund of the district shall

establish a miscellaneous programs fund for the deposit of the money. The money may be a reimbursement of miscellaneous program fund expenditures already realized by the district, a payment received as a local government severance tax payment for calendar year 1995 production as provided in [section 19], or ~~may be~~ a grant of money for the financing of expenditures to be realized by the district for a special, approved program to be operated by the district. When the money is a reimbursement or a local government severance tax payment, the money may be expended at the discretion of the trustees for school purposes. When the money is a grant, the money must be expended according to the conditions of the program approval by the superintendent of public instruction or any other approval agent. Within the miscellaneous programs fund, the trustees shall cause a separate accounting to be maintained for each federal grant program and for the aggregate of all reimbursement money.

(2) The financial administration of the miscellaneous programs fund must be in accordance with the financial administration provisions of this title for a nonbudgeted fund."

Section 45. Section 20-10-144, MCA, is amended to read:

"**20-10-144. *Computation of revenue and net tax levy requirements for district transportation fund budget.*** Before the fourth Monday of July and in accordance with 20-9-123, the county superintendent shall compute the revenue available to finance the transportation fund budget of each district. The county superintendent shall compute the revenue for each district on the following basis:

(1) The "schedule amount" of the preliminary budget expenditures that is derived from the rate schedules in 20-10-141 and 20-10-142 must be determined by adding the following amounts:

(a) the sum of the maximum reimbursable expenditures for all approved school bus routes maintained by the district (to determine the maximum reimbursable expenditure, multiply the applicable rate per bus mile by the total number of miles to be traveled during the ensuing school fiscal year on each bus route approved by the county transportation committee and maintained by the district); plus

(b) the total of all individual transportation per diem reimbursement rates for the district as determined from the contracts submitted by the district multiplied by the number of pupil-instruction days scheduled for the ensuing school attendance year; plus

(c) any estimated costs for supervised home study or supervised correspondence study for the ensuing school fiscal year; plus

(d) the amount budgeted on the preliminary budget for the contingency amount permitted in

20-10-143, except if the amount exceeds 10% of the total of subsections (1)(a), (1)(b), and (1)(c) or $100, whichever is larger, the contingency amount on the preliminary budget must be reduced to the limitation amount and used in this determination of the schedule amount; plus

(e) any estimated costs for transporting a child out of district when the child has mandatory approval to attend school in a district outside the district of residence.

(2) (a) The schedule amount determined in subsection (1) or the total preliminary transportation fund budget, whichever is smaller, is divided by 2 and is used to determine the available state and county revenue to be budgeted on the following basis:

(i) one-half is the budgeted state transportation reimbursement, except that the state transportation reimbursement for the transportation of special education pupils under the provisions of 20-7-442 must be 50% of the schedule amount attributed to the transportation of special education pupils; and

(ii) one-half is the budgeted county transportation fund reimbursement and must be financed in the manner provided in 20-10-146.

(b) When the district has a sufficient amount of cash for reappropriation and other sources of district revenue, as determined in subsection (3), to reduce the total district obligation for financing to zero, any remaining amount of district revenue and cash reappropriated must be used to reduce the county financing obligation in subsection (2)(a)(ii) and, if the county financing obligations are reduced to zero, to reduce the state financial obligation in subsection (2)(a)(i).

(c) The county revenue requirement for a joint district, after the application of any district money under subsection (2)(b), must be prorated to each county incorporated by the joint district in the same proportion as the ANB of the joint district is distributed by pupil residence in each county.

(3) The total of the money available for the reduction of property tax on the district for the transportation fund must be determined by totaling:

(a) anticipated federal money received under the provisions of Title I of Public Law 81-874 or other anticipated federal money received in lieu of that federal act;

(b) anticipated payments from other districts for providing school bus transportation services for the district;

(c) anticipated payments from a parent or guardian for providing school bus transportation services for a child;

(d) anticipated or reappropriated interest to be earned by the investment of transportation fund

cash in accordance with the provisions of 20-9-213(4);

(e) anticipated or reappropriated revenue from property taxes and fees imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204;

(f) anticipated revenue from coal gross proceeds under 15-23-703;

(g) anticipated ~~net proceeds taxes for new production, production from horizontally completed wells, and incremental production, as defined in 15-23-601, and local government severance taxes on any other production occurring after December 31, 1988~~ oil and natural gas production taxes;

(h) anticipated local government severance tax payments for calendar year 1995 production;

~~(h)~~(i) anticipated transportation payments for out-of-district pupils under the provisions of 20-5-320 through 20-5-324;

~~(i)~~(j) any other revenue anticipated by the trustees to be earned during the ensuing school fiscal year that may be used to finance the transportation fund; and

~~(j)~~(k) any fund balance available for reappropriation as determined by subtracting the amount of the end-of-the-year fund balance earmarked as the transportation fund operating reserve for the ensuing school fiscal year by the trustees from the end-of-the-year fund balance in the transportation fund. The operating reserve may not be more than 20% of the final transportation fund budget for the ensuing school fiscal year and is for the purpose of paying transportation fund warrants issued by the district under the final transportation fund budget.

(4) The district levy requirement for each district's transportation fund must be computed by:

(a) subtracting the schedule amount calculated in subsection (1) from the total preliminary transportation budget amount; and

(b) subtracting the amount of money available to reduce the property tax on the district, as determined in subsection (3), from the amount determined in subsection (4)(a).

(5) The transportation fund levy requirements determined in subsection (4) for each district must be reported to the county commissioners on the fourth Monday of August by the county superintendent as the transportation fund levy requirements for the district, and the levy must be made by the county commissioners in accordance with 20-9-142."

Section 46. Section 20-10-146, MCA, is amended to read:

"**20-10-146. County transportation reimbursement.** (1) The apportionment of the county

transportation reimbursement by the county superintendent for school bus transportation or individual transportation that is actually rendered by a district in accordance with this title, board of public education transportation policy, and the transportation rules of the superintendent of public instruction must be the same as the state transportation reimbursement payment, except that:

(a) if any cash was used to reduce the budgeted county transportation reimbursement under the provisions of 20-10-144(2)(b), the annual apportionment is limited to the budget amount;

(b) when the county transportation reimbursement for a school bus has been prorated between two or more counties because the school bus is conveying pupils of more than one district located in the counties, the apportionment of the county transportation reimbursement must be adjusted to pay the amount computed under the proration; and

(c) when county transportation reimbursement is required under the mandatory attendance agreement provisions of 20-5-321.

(2) The county transportation net levy requirement for the financing of the county transportation fund reimbursements to districts is computed by:

(a) totaling the net requirement for all districts of the county, including reimbursements to a special education cooperative or prorated reimbursements to joint districts or reimbursements under the mandatory attendance agreement provisions of 20-5-321;

(b) determining the sum of the money available to reduce the county transportation net levy requirement by adding:

(i) anticipated money that may be realized in the county transportation fund during the ensuing school fiscal year, including anticipated revenue from property taxes and fees imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204;

(ii) ~~net proceeds taxes and local government severance taxes on other oil and gas production occurring after December 31, 1988~~ oil and natural gas production taxes;

(iii) anticipated local government severance tax payments for calendar year 1995 production;

~~(iii)~~(iv) coal gross proceeds taxes under 15-23-703;

~~(iv)~~(v) any fund balance available for reappropriation from the end-of-the-year fund balance in the county transportation fund;

~~(v)~~(vi) federal forest reserve funds allocated under the provisions of 17-3-213; and

~~(vi)~~(vii) other revenue anticipated that may be realized in the county transportation fund during the

ensuing school fiscal year; and

(c) subtracting the money available as determined in subsection (2)(b) to reduce the levy requirement from the county transportation net levy requirement.

(3) The net levy requirement determined in subsection (2)(c) must be reported to the county commissioners on the fourth Monday of August by the county superintendent and a levy must be set by the county commissioners in accordance with 20-9-142.

(4) The county superintendent shall apportion the county transportation reimbursement from the proceeds of the county transportation fund. The county superintendent shall order the county treasurer to make the apportionments in accordance with 20-9-212(2) and after the receipt of the semiannual state transportation reimbursement payments."

Section 47. Section 82-11-118, MCA, is amended to read:

"**82-11-118. Fees for processing applications.** (1) The board shall establish a fee schedule to defray the expenses incurred for processing an application from an operator or producer of oil seeking approval of a new or expanded enhanced recovery project, as defined in ~~15-23-601 or 15-36-101~~ [section 3]. The fee must be paid by the owner or operator seeking approval of the project.

(2) The board shall, by rule, determine the amount of the fee based on the complexity of processing the application."

Section 48. Section 82-11-135, MCA, is amended to read:

"**82-11-135. Money earmarked for board expenses.** ~~All~~ The state treasurer shall deposit all money collected under this chapter and under [section 18(7)(b)] ~~shall be deposited~~ in the state special revenue fund ~~by the state treasurer and shall~~. The money must be used for the purpose of paying all expenses of the board and for no other purpose. ~~All these moneys shall be used by the board~~ The board shall use the money subject to biennial appropriations by the legislature. Income and interest from investment of the board's moneys in the state special revenue fund ~~shall~~ must be credited to the board."

NEW SECTION. **Section 49. Repealer.** Sections 15-23-601, 15-23-602, 15-23-603, 15-23-605, 15-23-606, 15-23-607, 15-23-608, 15-23-609, 15-23-610, 15-23-611, 15-23-612, 15-23-613, 15-23-614, 15-23-621, 15-23-631, 15-36-101, 15-36-102, 15-36-103, 15-36-104, 15-36-105,

15-36-106, 15-36-107, 15-36-108, 15-36-109, 15-36-110, 15-36-112, 15-36-113, 15-36-114, 15-36-120, 15-36-121, 15-36-122, 15-36-126, 82-11-131, 82-11-132, and 82-11-133, MCA, are repealed.

NEW SECTION. **Section 50. Codification instruction.** [Sections 1 through 20] are intended to be codified as an integral part of Title 15, and the provisions of Title 15 apply to [sections 1 through 20].

NEW SECTION. **Section 51. Saving clause.** [This act] does not affect rights and duties that matured, penalties that were incurred, or proceedings that were begun before [the effective date of this act].

NEW SECTION. **Section 52. Severability.** If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

NEW SECTION. **Section 53. Effective dates -- rulemaking.** (1) Except for the purposes of subsection (2), [this act] is effective January 1, 1996.

(2) For the purposes of promulgating administrative rules, [section 16 and this section] are effective on passage and approval.

NEW SECTION. **Section 54. Applicability.** (1) [This act] applies to oil and natural gas produced and sold on or after January 1, 1996.

(2)(a) [Sections 21 through 26] apply to county fiscal years beginning after June 30, 1996.

(b) [Sections 38 through 46] apply to school fiscal years beginning after June 30, 1996.

(3)(a) An operator is subject to provisions of Title 15, chapter 23, parts 1 and 6; Title 15, chapter 36; Title 15, chapter 38; and Title 82, chapter 11, part 1, as those laws read on December 31, 1995, for all oil and natural gas produced and sold by the operator before January 1, 1996.

(b) Except as provided in subsection (3)(c), the payment, collection, and distribution of taxes on oil and natural gas production occurring before January 1, 1996, must be made according to the provisions

of the laws referred to in subsection (3)(a) governing the tax in effect on the last day of the tax period in which the activity, enterprise, or product being taxed was engaged in, took place, or was produced and sold.

(c) [Section 19] applies to the payment, collection, and distribution of the local government for oil and natural gas produced and sold after December 31, 1994, and before January 1, 1996.

(d) All taxes collected pursuant to audit or collected after the date the tax is payable under the laws referred to in subsection (3)(a) must be distributed according to the statute governing allocation of the tax in effect on the date when the tax liability was incurred.

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0412, as introduced

DESCRIPTION OF PROPOSED LEGISLATION: An act generally revising the taxation of oil and natural gas; eliminating the oil and natural gas net proceeds tax, the local government severance tax, the state oil and gas severance tax, and the oil and gas privilege and license tax; imposing oil and natural gas production taxes based on the type of well and type of production; providing for the distribution of oil and natural gas production taxes; providing a disbursement to school districts and local governments to replace net proceeds and local government severance tax revenue; exempting oil and natural gas production from the resource indemnity trust tax; providing an allocation of oil and natural gas production tax revenue for purposes of the Montana resource indemnity trust and ground water assessment act; providing for the accelerated payment of local government severance taxes for production year 1995; authorizing counties to establish an oil and natural gas accelerated tax fund; allowing school districts to use accelerated local government severance tax payments for any budget purpose; and providing effective dates and applicability dates.

ASSUMPTIONS:

1. Taxable value of pre-7/1/85 natural gas production is $49,248,000 in CY95, $50,853,000 in CY96 and $52,349,000 in CY97 (LFA).
2. Taxable value of post-7/1/85 natural gas production is $32,103,000 in CY95, $34,226,000 in CY96 and $36,460,000 in CY97 (LFA).
3. Taxable value of pre-7/1/85 oil production is $161,540,000 in CY95, $152,830,000 in CY96 and $150,435,000 in CY97 (LFA).
4. Taxable value of post-7/1/85 oil production is $49,629,000 in CY95, $56,906,000 in CY96 and $67,272,000 in CY97 (LFA).
5. Natural gas and oil production by type, location, and relative value is distributed between levy districts in CY95, CY96, and CY97 as it was during CY93 (MDOR).
6. Local share of pre-7/1/85 taxes are distributed on 1988 unit value and FY90 mills (MDOR).
7. Local share of post-7/1/85 taxes are distributed on liability and FY94 mills (MDOR).
8. All revenues from liabilities attributable to a fiscal year and received within 60 days after the close of the fiscal year are accrued back to that fiscal year (MDOR).
9. Total production for current law state severance taxes is equal to total production of the Local Government Severance Tax, plus taxable and exempt production from the Net Proceeds Tax (MDOR).
10. All production year 1995 accelerated local government severance tax payments will be received prior to June 30, 1996 (MDOR).
11. All production year 1995 accelerated local government severance tax payments will be discounted by 6.0% (MDOR).
12. School districts will elect to allocate their accelerated revenue to non-GTB supported accounts.

(Continued)

Dave Lewis 2-23-95

DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Lorents Grosfield 2-28-95

LORENTS GROSFIELD, PRIMARY SPONSOR DATE
Fiscal Note for SB-412, as introduced.

SB 412

Net Impact:

	FY96 Difference	FY97 Difference
General Fund	$24,000	$34,000
Board of Oil and Gas Conservation	1,000	2,000
Groundwater Assessment Account	104,000	5,000
Renewable Resource Grants	74,000	3,000
Reclamation & Development Grants	221,000	10,000
Resource Indemnity Trust Fund	337,000	15,000
University System (6-mill account)	592,000	(4,000)
Foundation Program (45 mills)	4,490,000	78,000
County Governments	5,928,000	(10,000)
Miscellaneous Districts	207,000	4,000
County Education (Ret. & Trans)	1,870,000	(19,000)
Local Elem. School Districts	2,746,000	8,000
Local High School Districts	2,705,000	10,000
Total	$19,308,000	$68,000

FISCAL IMPACT:

Expenditures:
There is no impact on department expenditures under the proposed legislation.

Revenues:
The following revenue impacts to locally-distributed accounts are associated with the acceleration of the CY95 Local Government Severance Tax liabilities:

	FY96 Difference	FY97 Difference
University System (6-mill account)	$594,000	$0
Foundation Program (45 mills)	4,459,000	0
County Governments	5,939,000	0
Miscellaneous Districts	205,000	0
County Educ. Trans. & Retire.	1,881,000	0
Elementary Districts	2,745,000	0
High School Districts	$2,704,000	0
Total	$18,526,000	$0

The following revenue impacts to state and locally-distributed accounts are associated with the implementation of the consolidated quarterly collected production tax on oil and natural gas. There is a one-time revenue acceleration of approximately $735,000 which occurs when the Resource Idemnity and Groundwater Assessment Tax is moved from an annually paid tax, to an allocation from the quarterly collected consolidated oil and gas production tax.

	FY96 Difference	FY97 Difference
General Fund	$24,000	$34,000
Board of Oil and Gas Conservation	1,000	2,000
Groundwater Assessment Account	104,000	5,000
Renewable Resource Grants	74,000	3,000
Reclamation & Development Grants	221,000	10,000
Resource Indemnity Trust Fund	337,000	15,000
University System (6-mill account)	(2,000)	(4,000)
Foundation Program (45 mills)	31,000	78,000
County Governments	(11,000)	(10,000)
Miscellaneous Districts	2,000	4,000
County Education (Ret. & Trans)	(11,000)	(19,000)
Local Elem. School Districts	1,000	8,000
Local High School Districts	1,000	10,000
Total	$771,000	$68,000

(Continued)

STATE OF MONTANA - FISCAL NOTE

Revised Fiscal Note for SB 412, as introduced

DESCRIPTION OF PROPOSED LEGISLATION: An act generally revising the taxation of oil and natural gas; eliminating the oil and natural gas net proceeds tax, the local government severance tax; the state oil and gas severance tax, and the oil and gas privilege and license tax; imposing oil and natural gas production taxes based on the type of well and type of production; providing for the distribution of oil and natural gas production taxes; providing a disbursement to school districts and local governments to replace net proceeds and local government severance tax revenue; exempting oil and natural gas production from the resource indemnity trust tax; providing an allocation of oil and natural gas production tax revenue for purposes of the Montana resource indemnity trust and ground water assessment act; providing for the accelerated payment of local government severance taxes for production year 1995; authorizing counties to establish an oil and natural gas accelerated tax fund; allowing school districts to use accelerated local government severance tax payments for any budget purpose; and providing effective dates and applicability dates.

ASSUMPTIONS:

1. Taxable value of pre-7/1/85 natural gas production is $49,248,000 in CY95, $50,853,000 in CY96 and $52,349,000 in CY97 (LFA).
2. Taxable value of post-7/1/85 natural gas production is $32,103,000 in CY95, $34,226,000 in CY96 and $36,460,000 in CY97 (LFA).
3. Taxable value of pre-7/1/85 oil production is $161,540,000 in CY95, $152,830,000 in CY96 and $150,435,000 in CY97 (LFA).
4. Taxable value of post-7/1/85 oil production is $49,629,000 in CY95, $56,906,000 in CY96 and $67,272,000 in CY97 (LFA).
5. Natural gas and oil production by type, location, and relative value is distributed between levy districts in CY95, CY96, and CY97 as it was during CY93 (MDOR).
6. Local share of pre-7/1/85 taxes are distributed on 1988 unit value and FY90 mills (MDOR).
7. Local share of post-7/1/85 taxes are distributed on liability and FY94 mills (MDOR).
8. All revenues from liabilities attributable to a fiscal year and received within 60 days after the close of the fiscal year are accrued back to that fiscal year (MDOR).
9. Total production for current law state severance taxes is equal to total production of the Local Government Severance Tax, plus taxable and exempt production from the Net Proceeds Tax (MDOR).
10. All production year 1995 accelerated local government severance tax payments will be received prior to June 30, 1996 (MDOR).
11. All production year 1995 accelerated local government severance tax payments will be discounted by 6.0% (MDOR).

David Lewis 3-9-95

DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

3-11-95

LORENTS GROSFIELD, PRIMARY SPONSOR DATE
Revised Fiscal Note for SB-412, as introduced

SB 412-#2

FISCAL IMPACT:

Expenditures:
There is no impact on department expenditures under the proposed legislation.

Revenues:
The following revenue impacts to locally-distributed accounts are associated with the acceleration of the CY95 Local Government Severance Tax liabilities:

	FY96 Difference	FY97 Difference
University System (6-mill account)	$594,000	$0
Foundation Program (45 mills)	4,459,000	0
County Governments	5,939,000	0
Miscellaneous Districts	205,000	0
County Educ. Trans. & Retire.	1,881,000	0
Elementary Districts	2,745,000	0
High School Districts	$2,704,000	0
Total	$18,527,000	$0

The following revenue impacts to state and locally-distributed accounts are associated with the implementation of the consolidated production tax on oil and natural gas. There is a one-time revenue acceleration of approximately $735,000 which occurs when the Resource Idemnity and Groundwater Assessment Tax is moved from an annually paid tax, to an allocation from the quarterly collected consolidated oil and gas production tax.

	FY96 Difference	FY97 Difference
General Fund	$24,000	$34,000
Board of Oil and Gas Conservation	1,000	2,000
Groundwater Assessment Account	104,000	5,000
Renewable Resource Grants	74,000	3,000
Reclamation & Development Grants	221,000	10,000
Resource Indemnity Trust Fund	337,000	15,000
University System (6-mill account)	(2,000)	(4,000)
Foundation Program (45 mills)	31,000	78,000
County Governments	(11,000)	(10,000)
Miscellaneous Districts	2,000	4,000
County Education (Ret. & Trans)	(11,000)	(19,000)
Local Elem. School Districts	1,000	8,000
Local High School Districts	1,000	10,000
Total	$772,000	$136,000

Impact:

	FY96 Difference	FY97 Difference
neral Fund	$24,000	$34,000
rd of Oil and Gas Conservation	1,000	2,000
undwater Assessment Account	104,000	5,000
newable Resource Grants	74,000	3,000
lamation & Development Grants	221,000	10,000
source Indemnity Trust Fund	337,000	15,000
iversity System (6-mill account)	592,000	(4,000)
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scellaneous Districts	207,000	4,000
unty Education (Ret. & Trans)	1,870,000	(19,000)
cal Elem. School Districts	2,746,000	8,000
cal High School Districts	2,705,000	10,000
Total	$19,299,000	$136,000

MINUTES

MONTANA SENATE
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By CHAIRMAN GERRY DEVLIN, on March 10, 1995, at 8:00 a.m.

ROLL CALL

Members Present:
Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John G. Harp (R)
Sen. Dorothy Eck (D)
Sen. Barry "Spook" Stang (D)
Sen. Fred R. Van Valkenburg (D)

Members Excused: None

Members Absent: SEN. DOROTHY ECK

Staff Present: Jeff Martin, Legislative Council
Renée Podell, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing: SB 383, SB 412
Executive Action: None

HEARING ON SB 412

Opening Statement by Sponsor:

SEN. LORENTS GROSFIELD, SD 13, Big Timber, stated SB 412 is a result of a long drawn out process of getting several people together and reviewing oil and gas taxation laws. He affirmed this legislation generally revises taxation of oil and gas, simplifying the tax structure. **SEN. GROSFIELD** acknowledged Section 2 summarizes the whole purpose of the bill. He stated SB 412 provides an incentive to pay the accelerated portion of the taxes in 1995. He reported there are some errors in the fiscal note and affirmed the correct totals. **SEN. GROSFIELD** said this

bill takes 27 different tax rates and reduces them to five rates for oil and five rates for gas. He reported all filing regulations have been standardized on a quarterly basis. **SEN. GROSFIELD** attested this bill has no effect on SB 18 which was passed during the Special Session in regard to horizontal drilling.

Proponents' Testimony:

Don Hoffman, Bureau Chief, Department of Revenue, expressed the confusing manner in which newcomers to the state learn about gas and oil taxation laws. **Mr. Hoffman** presented a copy of a letter from a taxpayer who asked for a waiver of penalty fees because the filing date was unclear. **EXHIBIT 1.** He presented a handout titled "Oil Production Tax Rate Simplification", **EXHIBIT 2;** a handout titled "State Oil and Gas Production Taxes as a Percent of Total Production Taxes", **EXHIBIT 3;** and a "Timeline for Acceleration of LGST and Implementation of New Combined Oil and Gas Production Tax", **EXHIBIT 4. Mr. Hoffman** presented written testimony from **Fred Olson, Vice President, Montana Land and Mineral Owners Association. EXHIBIT 5.**

David Johnson, President, of the Montana Petroleum Association and Montana Vice President, of the Rocky Mountain Oil and Gas Association, presented written testimony. **EXHIBIT 6.**

Jerome Anderson, Shell Western Exploration and Production, Inc., declared he echoes the comments made by **Mr. Johnson.** He urged support for the simplification process existing in this bill.

Dennis Burr, Montana Taxpayers Association, stressed full support for SB 412.

Patrick M. Montalban, Vice President, Northern Montana Oil and Gas Association, stated representatives from schools, counties, royalty owners, gas and oil majors and independents met to put this legislation together. He explained when it came to simplification of taxes in the State of Montana his association asked for one basic tax for one stripper well, for simplification of tax payments, and for a 12 month exemption on the drilling of new wells. **Mr. Montalban** urged support for SB 412.

SEN. LARRY TVEIT, SD 50, Fairview, commented he supports SB 412 with an amendment, which he previously discussed with the sponsor of the bill. He acknowledged the amendment hasn't been drafted at this time, however, it will be presented for executive action. **SEN. TVEIT** stated this is a fair proposal.

Madalyn Quinlan, Office of Public Instruction (OPI), stated OPI doesn't take a position on the tax rates in this bill, however, OPI staff attended the meetings and helped draft SB 412. She remarked the one time monies that come to the districts from calendar 1995 can be used for miscellaneous funds.

Stanley Kaleczyc, Meridan Oil Company, commented the administrative simplification in this bill is long overdue. He stated the bill as presently drafted maintains the incentives on horizontal production, and for primary producers the bill maintains the status quo with respect to rates. He urged support for SB 412.

Jim Paladichuk, W. D. Resources (W.B.I.P.), acknowledged he supports the remarks made by **Mr. Anderson** and **Mr. Johnson.**

Alyse Grant, Montana Power Company (MPC), Butte, stated MPC was involved in the preliminary draft discussions. She attested it was MPC's intent to simplify and make more efficient a tax structure that was proven to be time consuming, confusing, costly, and burdensome. She reported SB 412 accomplished that goal.

Patty O'Reilly, Independent from Shelby, Montana, announced it will be a delight to fill out one form. She urged support for SB 412.

Sue Olson, President, Montana Association of Oil, Gas and Coal Counties, and a Musselshell County Commissioner, attested the association supports SB 412. She stated the association was involved in the evolution of this bill since last summer. She said it will provide some much needed additional revenues to the counties.

Jim Halverson, Association of Oil, Gas, and Coal Counties, declared support for SB 412, however, he had one exception, which will be clarified in SB 383.

Warren E. Johnson, Richland County Commissioner, submitted written testimony. **EXHIBIT 7.**

Garth Owens, Vice President, H & G Drilling, urged passage of SB 412.

{Tape: 1; Side: B; Comments: Turn Tape.}

Dean Harmon, Roosevelt County Commissioner, voiced support for SB 412.

Gordon Kampen, Sheridan County Commissioner, wished to go on record in support of SB 412.

Clair Moxley, Blaine County Commissioner, professed support for SB 412.

Don Rieger, Fallon County Commissioner, declared support for SB 412.

Gloria Paladichuk, Richland Development, commented she strongly supports SB 412.

Opponents' Testimony:

Larry G. Schuster, Attorney representing the interests of Powder River County and Rosebud County, Bighorn County, and Phillips County, commented this legislation is not favorable toward the counties he represents. He submitted written testimony. **EXHIBIT 8.**

Bill Rappold, Chairman Pondera County Commissioners, submitted written testimony in opposition to SB 412. **EXHIBIT 9.**

Wayne Stahl, Phillips County Commissioner, declared the splitting of SB 412 and SB 383 was not good.

Mark Pinkerton, Rosebud County Commissioner, attested opposition to SB 412.

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. DELWYN GAGE questioned **Mr. Hoffman** in regard to Page 21, Line 16 asking why 6% of taxable value of the county is added to taxable value January 1st of each year. **Mr. Hoffman** stated it is current law. **SEN. GAGE** asked **Mr. Hoffman** why this particular language is in the bill. **Mr. Hoffman** commented he would research the reasoning for the language and report back to him.

SEN. GAGE asked **Mr. Schuster** if his opposition to the bill is primarily centered around the conversion from the net gross tax to the flat tax. **Mr. Schuster** stated in essence it isn't his complete position, however, there is opposition to the flat tax.

SEN. MIKE FOSTER asked **Ms. Grant** what will be the impact in the company if this bill is adopted in regard to layoffs of employees. **Ms. Grant** commented she probably isn't the right person to answer the question.

SEN. JOHN HARP asked **Mr. Robinson** what was done differently in project 1995. **Mr. Robinson** stated the DOR is in the middle of litigation in regard to previous legislation that was passed, and a lot of the work done in the 1995 issue was basically "what if scenarios". **Mr. Robinson** stated the DOR perceives the issue in the litigation goes back to the net proceeds to the local government severance tax. **Mr. Robinson** acknowledged the litigation deals with whether the legislature has the authority to move from the net proceeds to a flat tax. **SEN. HARP** asked **Mr. Robinson** how anyone can look at working papers, before legislation is drafted, and make the statement that the DOR is not acting in good faith. **Mr. Robinson** stated in looking at all of the activity there is a lot of information provided that is

not DOR information in terms of how it applies to different businesses. He attested projected data is a different issue, however, if there is a particular request for historical data the DOR will provide it into the record for that particular lawsuit.

SEN. BARRY "SPOOK" STANG asked **Mr. Robinson** what happens if the committee deals with **SEN. TVEIT'S** amendments and the percentages of the bill is changed. **Mr. Robinson** said the DOR tried to maintain revenue neutrality throughout the process. He stated the amendments are not necessary because this is a consensus compromise package.

SEN. GAGE asked **Mr. Robinson** to share with the committee where the whole thrust for starting this project came from. **Mr. Robinson** said the initial contact came from the DOR in terms of determining if there was interest in moving forward on a simplification process. He asked **Mr. Hoffman** to respond. **Mr. Hoffman** commented the first contact was an informal one at a Montana Power meeting in 1993, in Billings.

CHAIRMAN DEVLIN asked **Mr. Hoffman** how the reporting dates got so fragmented. **Mr. Hoffman** remarked his analysis would be that it was tinkered with all along the line.

Closing by Sponsor:

SEN. GROSFIELD declared SB 412 is a simplification bill going from 27 rates down to 5 rates for oil and 5 for gas. He explained **SEN. TVEIT'S** amendments would change it to 5 for gas and 6 for oil. He urged the committee to think seriously before changing rates. **SEN. GROSFIELD** said the opponents who spoke on SB 412 were really opponents to HB 28 (Special Session, 1989).

HEARING ON SB 383

Opening Statement by Sponsor:

SEN. LARRY TVEIT, SD 50, Fairview, explained SB 383 was part of SB 412 before they were separated into two different bills. He stated SB 383 pertains to distribution of the energy dollars between the counties. He said there are winners and losers. **SEN. TVEIT** commented a technical amendment is needed and will be distributed before executive action.

Proponents' Testimony:

Jim Halverson, Association of Oil, Gas and Coal Counties, presented a value distribution chart. **EXHIBIT 10.** **Mr. Halverson** submitted an amendment. **EXHIBIT 11.**

Sue M. Olson, President, Montana Association of Oil, Gas and Coal Counties, stated SB 383 has been a very controversial bill among the counties. She said it is essential this bill run in concert with SB 412, because it will give the loser counties the

MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE

ROLL CALL

DATE March 10, 1995

NAME	PRESENT	ABSENT	EXCUSED
MACK COLE	✓		
DELWYN GAGE	✓		
LORENTS GROSFIELD	✓		
JOHN HARP	✓		
DOROTHY ECK		✓	
BARRY "SPOOK" STANG	✓		
FRED VAN VALKENBURG	✓		
MIKE FOSTER, VICE CHAIRMAN	✓		
GERRY DEVLIN, CHAIRMAN	✓		

SEN:1995
wp.rollcall.man
CS-09

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 1
BILL NO. SB 412

February 24, 1995

RECEIVED
MAR 1 1995
DEPARTMENT OF REVENUE

State of Montana
Natural Resource &
Corporate Tax Division
Helena, MT 59620-2701

ATTN: Cheryl

Dear Cheryl:

In regards to the enclosed Notice of Delinquent Natural Gas Severance and Natural Gas Privilege & License tax due, I would like to offer the following explanation for late payment. I would also like to request that you please waive the penalties and/or interest assessed.

In October, 1994 I took over the data processing and gas tax reporting duties from a previous employee. I have never worked specifically with reporting these types of taxes to the state and only had two weeks training to assume the duties of a large system. I made a calendar list of all due dates for tax reports early in October so I would not miss any filings. And, I have filed all reports on time. However, I mistakenly thought the tax computed on this particular report was to be paid at a later date (with the 4th quarter return) as is indicated on the bottom of Form NG-1. This seemed logical at the time since several other reports are sent without payment and the state or county creates a statement to be paid anywhere from 60 days to 1 year later, as in the case of LGST Tax Reports.

Since receiving notice of late payment I have reviewed all tax reports due to make sure which ones require payment with the report. I don't want this to happen again!

rg/wp/22495

DATE March 16, 1995

EXHIBIT NO. 3

Oil Production Tax Rate Simplification

Working Interest "OLD" = 14.1%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest	10,126,548	$149,700,759	14.10%	14.10%	$21,107,807	$21,107,807	$0

W.I. "NEW" = 12.7% : 12-Month = 5.7%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Net Proceeds-Working Interest	2,199,268	32,511,775	12.70%	12.70%	$4,128,995	$4,128,995	$0
Net Proceeds (Exempt) Working Interest	423,443	6,259,759	5.70%	5.70%	$356,806	$356,806	$0
Total Production and Effective Tax Rates	2,622,711	$38,771,534	11.57%	11.57%	$4,485,802	$4,485,802	$0

STRIPPER = 11.0% : 12-Month = 5.7%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest	1,820,818	$26,917,152	10.70%	11.00%	$2,880,135	$2,960,887	$80,751
Net Proceeds Working Interest	400,340	5,918,219	12.70%	11.00%	$751,614	$651,004	($100,610)
Net Proceeds (Exempt) Working Interest	77,081	1,139,483	5.70%	5.70%	$64,951	$64,951	$0
Total Production and Effective Tax Rates	2,298,238	$33,974,855	10.88%	10.82%	$3,696,700	$3,676,841	($19,858)

ROYALTY = 16.5% : No 12-Month

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST NWI	1,478,734	$21,860,125	18.20%	16.50%	$3,978,543	$3,606,921	($371,622)
Net Proceeds NWI	276,107	4,081,694	12.70%	16.50%	$518,375	$673,479	$155,104
Net Proceeds (Exempt) NWI	61,862	914,513	5.70%	16.50%	$52,127	$150,895	$98,767
Total Production and Effective Tax Rates	1,816,704	$26,856,331	16.94%	16.50%	$4,549,045	$4,431,295	($117,750)

INCENTIVES

All current law horizontal and enhanced recovery tax incentives remain unchanged.

Grand Total	16,864,201	$249,303,479	13.57%	13.52%	33,839,353	33,701,745	($137,609)

ASSUMPTIONS:

• Production is CY1993 • 89% of Net Proceeds production is working interest and 11% is non-working interest • 84.6% of total production would qualify as regular and 15.4% as stripper production •

• [illegible] (all oil) is $14.783 • 4.2% of total production is non-taxable royalties • The 12-month holiday on new production is included under the simplified rate structure •

Natural Gas Tax Rate Simplification

Working Interest "Old" = 18.75%

Current Production Type (Regular)	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST Working Interest	11,165,202	$19,550,269	18.60%	18.75%	$3,636,350	$3,665,675	$29,325

W.I. "New" = 15.35% : 12-Month = 3.35%

Current Production Type (Regular)	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Net Proceeds Working Interest	6,866,905	12,023,951	15.35%	15.35%	1,845,676	1,845,676	$0
Net Proceeds (Exempt) Working Interest	1,943,703	3,403,424	3.35%	3.35%	114,015	114,015	$0
Total	8,810,608	$15,427,375	12.70%	12.70%	1,959,691	1,959,691	$0

STRIPPER=11.2% : 12-Month =3.35%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest (St. Sev. Taxable)	1,729,138	$3,027,721	12.29%	11.20%	$372,107	$339,105	($33,002)
LGST-Working Interest (St. Sev. Exempt)	11,779,753	20,626,347	10.70%	11.20%	2,207,019	2,310,151	103,132
Net Proceeds-Working Interest (St Sev Taxable)	1,011,281	1,770,753	14.29%	11.20%	253,041	198,324	(54,716)
Net Proceeds-Working Interest (St Sev Exempt)	6,889,352	12,063,255	12.70%	11.20%	1,532,033	1,351,085	(180,949)
Net Proceeds (Exempt) W.I. (St. Sev. Taxable)	286,247	501,218	2.29%	3.35%	11,478	16,791	5,313
Net Proceeds (Exempt) W.I. (St. Sev. Exempt)	1,950,057	3,414,550	0.70%	3.35%	23,902	114,387	90,486
Total.	23,645,827	$41,403,844	10.63%	10.46%	$4,399,580	$4,329,843	($69,737)

ROYALTY=15.00% : No 12-Month

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST- Non-Working Interest Regular	1,802,920	$3,156,913	18.60%	15.00%	$587,186	$473,537	($113,649)
LGST-NWI Stripper (St. Sev. Taxable)	188,188	329,517	17.54%	15.00%	57,797	49,428	(8,370)
LGST-NWI Stripper (St. Sev. Exempt)	1,282,030	2,244,835	15.95%	15.00%	358,051	336,725	(21,326)
Net Proceeds-NWI Regular	909,884	1,593,207	15.35%	15.00%	244,557	238,981	(5,576)
Net Proceeds-NWI Stripper (St. Sev. Taxable)	133,998	234,630	14.29%	15.00%	33,529	35,194	1,666
Net Proceeds-NWI Stripper (St. Sev. Exempt)	912,859	1,598,415	12.70%	15.00%	202,999	239,762	36,764
Exempt NP - NWI Regular	257,546	450,963	3.35%	15.00%	15,107	67,645	52,537
Exempt NP- NWI Stripper (St. Sev. Taxable)	37,929	66,413	2.29%	15.00%	1,521	9,962	8,441
Exempt NP- NWI Stripper (St. Sev. Exempt)	258,388	452,437	0.70%	15.00%	3,167	67,866	64,699
Total	5,783,741	$10,127,331	14.85%	15.00%	$1,503,914	$1,519,100	$15,185
Grand Total	**49,405,379**	**$86,508,818**	**13.29%**	**13.26%**	**$11,499,535**	**$11,474,309**	**($25,226)**

State Oil and Gas Production Taxes As A Percent of Total Production Taxes

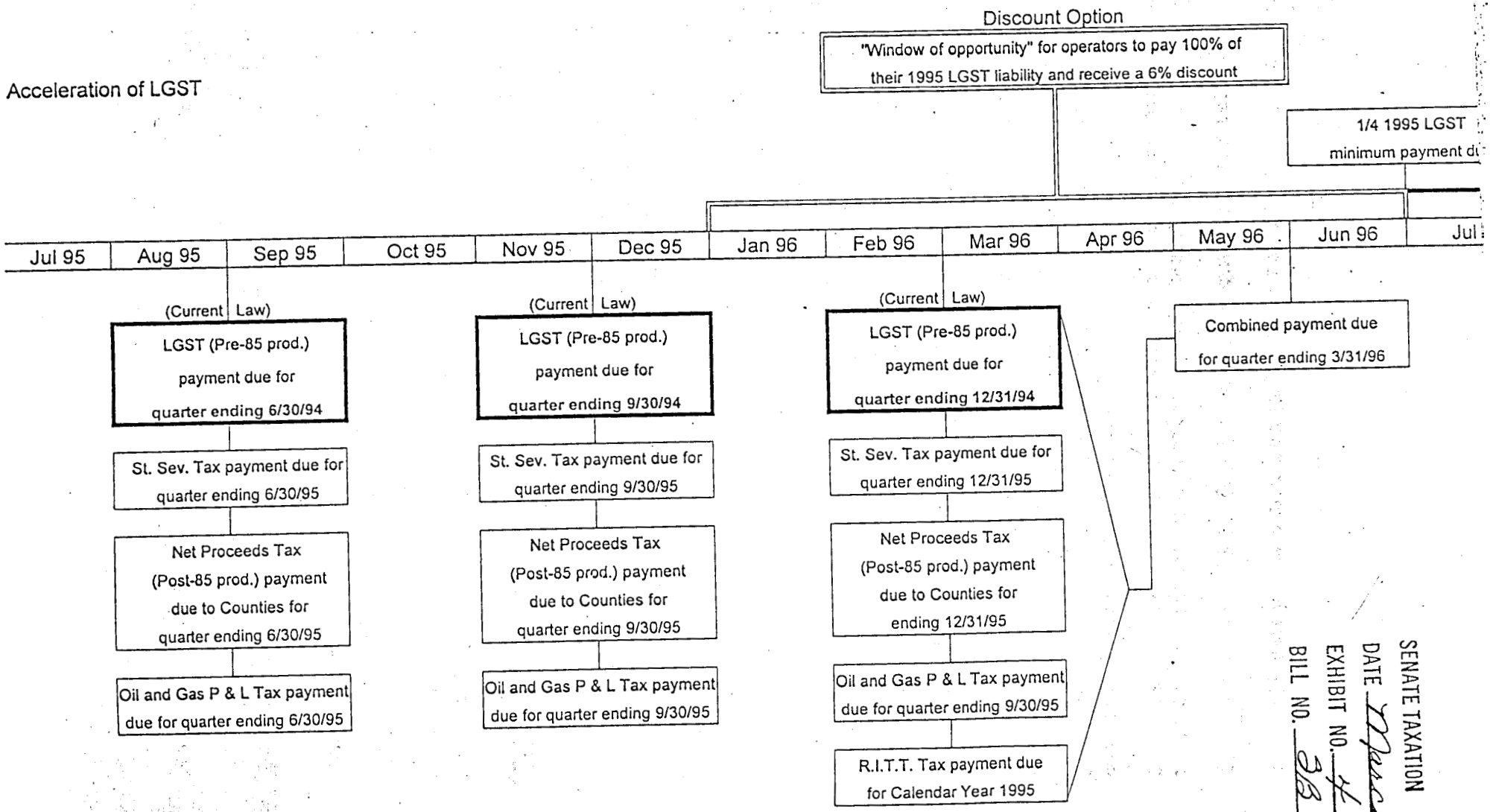
(Method Used To Determine Project-95 Across-the-board State/Local Distribution Percentages)
CY1993 Base Projected to CY1996

Production Type	Local	State	Combined	Percent To State
LGST Royalty Regular Gas	$434,525	$95,453	$529,979	18.01%
LGST Regular Gas	2,790,790	613,059	3,403,849	18.01%
LGST Royalty Stripper Gas	396,420	18,725	415,146	4.51%
LGST Regular Stripper Gas	2,710,391	195,244	2,905,635	6.72%
Net Proceeds Royalty Stripper Gas	135,311	9,704	145,016	6.69%
Net Proceeds Regular Stripper Gas	1,373,824	82,470	1,456,293	5.66%
Net Proceeds Royalty Regular Gas	348,552	118,075	466,627	25.30%
Net Proceeds Regular Gas	2,148,681	599,840	2,748,522	21.82%
Total Gas	$10,338,495	$1,732,570	$12,071,066	14.35%

Production Type	Local	State	Combined	Percent To State
LGST Royalty Regular Oil	$1,789,206	$815,878	$2,605,085	31.32%
LGST Regular Oil	9,698,587	6,581,184	16,279,771	40.43%
LGST Royalty Stripper Oil	339,130	154,643	493,774	31.32%
LGST Stripper Oil	1,017,197	1,159,604	2,176,801	53.27%
Net Proceeds Royalty Stripper Oil	19,160	16,847	36,007	46.79%
Net Proceeds Stripper Oil	123,867	100,863	224,730	44.88%
Net Proceeds Royalty Regular Oil	426,902	409,275	836,177	48.95%
Net Proceeds Regular Oil	3,336,246	2,716,657	6,052,903	44.88%
Total Oil	$16,750,295	$11,954,952	$28,705,247	41.65%

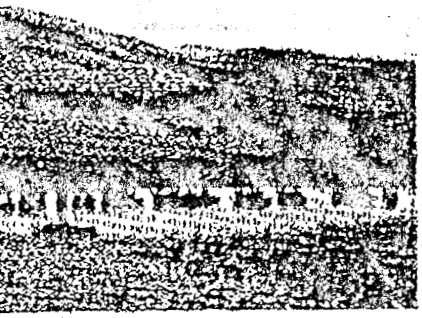
EXHIBIT NO. 3
DATE March 10, 1995

The original of this document is stored at the Historical Society at 225 North Roberts Street, Helena, MT 59620-1201. The phone number is 444-2694.


Acceleration of LGST
Discount Option
"Window of opportunity" for operators to pay 100% of their 1995 LGST liability and receive a 6% discount
1/4 1995 LGST minimum payment d
Jul 95
Aug 95
Sep 95
Oct 95
Nov 95
Dec 95
Jan 96
Feb 96
Mar 96
Apr 96
May 96
Jun 96
Jul
(Current Law)
LGST (Pre-85 prod.) payment due for quarter ending 6/30/94
St. Sev. Tax payment due for quarter ending 6/30/95
Net Proceeds Tax (Post-85 prod.) payment due to Counties for quarter ending 6/30/95
Oil and Gas P & L Tax payment due for quarter ending 6/30/95
(Current Law)
LGST (Pre-85 prod.) payment due for quarter ending 9/30/94
St. Sev. Tax payment due for quarter ending 9/30/95
Net Proceeds Tax (Post-85 prod.) payment due to Counties for quarter ending 9/30/95
Oil and Gas P & L Tax payment due for quarter ending 9/30/95
(Current Law)
LGST (Pre-85 prod.) payment due for quarter ending 12/31/94
St. Sev. Tax payment due for quarter ending 12/31/95
Net Proceeds Tax (Post-85 prod.) payment due to Counties for ending 12/31/95
Oil and Gas P & L Tax payment due for quarter ending 9/30/95
R.I.T.T. Tax payment due for Calendar Year 1995
Combined payment due for quarter ending 3/31/96

Current and Proposed Law Quarterly Payments

SENATE TAXATION
DATE 2 Feb 95
EXHIBIT NO. 4
BILL NO. SB 412



DATE March 10, 1995

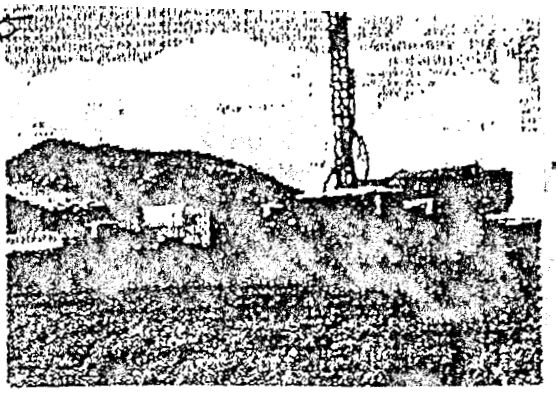
EXHIBIT 5

BILL NO. SB 412

Montana Land and Mineral Owners Association

P.O. Box 1301

Havre, Montana 59501



March 9, 1995

Mr. Don Hoffman
Bureau Chief
Natural Resources Bureau
Mitchell Building
Helena, MT 59620

Dear Mr. Hoffman:

The following is being submitted for testimony at the legislative hearing concerning SB 412.

The Montana Land and Mineral Owners Association consists of approximately 160 members from Hill, Blaine, Chouteau, Liberty and Phillips Counties and has been in existence for over 20 years.

The vast majority of production in our area is natural gas with only a small amount of oil production. Because of this our knowledge of oil production and taxation is limited, thus this testimony will deal only with the natural gas portion of SB 412.

On behalf of the directors and members of the MLMOA, we strongly support this proposal for the following reasons:

1. Royalty owners will have only one tax rate which will make their royalty statements much easier to understand and keep straight.

2. The bill creates a stripper category for "new production" which should encourage increased exploration.

3. The proposed tax structure would not seem so menacing to out-of-state producers interested in expanding into Montana.

4. All taxes will be filed on a single quarterly tax return.

5. All categories would remain "revenue neutral."

Our association feels that this proposal was a good idea to start with and has been supported by industry and royalty owners alike. We wish to commend the Department of Revenue for their efforts.

In closing I ask for your support of SB 412 in its current form.

Thank you for your consideration.

Sincerely,

Fred S. Olson

Fred Olson
Vice President

FO:sn

cc: Herb Vasseur, MLMOA President

MONTANA PETROLEUM ASSOCIATION
A Division of the
Rocky Mountain Oil and Gas Association

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 6
BILL NO. SB 412

33 East Chance Gulch, Suite 2B
Post Office Box 1186
Helena, Montana 59624-1186
Telephone (406) 442-7582
FAX (406) 443-7291

Gail Abercrombie
Executive Director

TESTIMONY

David A. Johnson
President
Montana Petroleum Association

SB 412
GENERALLY REVISING TAXATION OF OIL AND NATURAL GAS

March 10, 1995
Senate Natural Resources Committee

Mr. Chairman, members of the Committee, I am David Johnson, president of the Montana Petroleum Association and Montana vice president of the Rocky Mountain Oil and Gas Association.

Tax simplification of oil and gas production taxes had been a topic brought up in our association's discussions of long range planning. However, as of last winter, we had not focused on details nor aimed to pursue simplification in the 1995 session. But, when the Department of Revenue contacted our association and asked for a meeting in early April to broach the subject, MPA members responded.

The initial proposals for oil and gas tax rates which the Department put on the table at that meeting certainly prompted discussion -- discussion that sounded more like protest. We left the meeting with a high level of doubt, but we told the Department that we would look at possible rate scenarios and would be available for further discussions..

Although tax simplification had not been in our near term agenda, it was thought that, given the cooperative posture of the Department, this was an opportunity that should not be dismissed.

As the Department staff has reviewed for you, the meetings were numerous, eventually broad-based and far flung. In addition to the public meetings, our

members met via conference calls to run various tax rates with their mixes of production -- old and new, primary and stripper, working and royalty production. It was a laborious process. Our members were dedicated to finding and unifying behind a consensus position. We had to find what rates each company could live with and identify the principles and practicalities upon which to base the consensus.

One of the principles of highest priority dealt not with the rates but with the standardization of production reporting and payment of the taxes. The variety of dates for reporting and payment defy any efforts for efficiencies in administration. Efficiencies in government and corporate affairs are desirable and necessary.

Another principle was that the working interest owner, which expends the capital to explore and develop the drilling prospect, should have a lower rate of taxation than the royalty interest owner, who does not risk capital.

A third principle was that the composite tax rate for new production should not be any higher than it currently is. Early on in running the numbers, it was found that to consolidate old and new production into one rate and maintain revenue neutrality, the rate arrived at would have to be higher than is currently levied against new production. That would send a very bad signal to operators. Montana already has a poor reputation in the oil and gas community for its high tax rate and the government's seeming disinclination to attract oil and gas activities to the state. To up the tax rate on new production would reinforce that reputation.

The tax rates in Senate Bill 412 have been communicated to MPA members and analyzed by those members who were active through the months of deliberation. From the beginning of the process, we expressed concern among ourselves and eventually to the Department, that bringing an oil and gas tax rate bill before the legislature would make the rates vulnerable to predation. Assurances were shared among the tax simplification participants and given by the governor that the rates in the legislation would be a consensus position and shifting or increasing rates in the legislative process to benefit one group of participants over the others would not be condoned.

EXHIBIT 6
DATE 3-10-95
SB 412

Taxes on oil and gas production, whether they be in Montana or a neighboring state, are never simple. Given the parameters we were working with, Senate Bill 412 is a good product. One of its best assets is the standardization of the production reporting and tax payments.

The Montana Petroleum Association supports Senate Bill 412.

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 7
BILL NO. SB 412 & SB 383

TESTIMONY FOR SB 412 AND 383

MEMBERS OF COMMITTEE

I AM HERE TO SPEAK IN SUPPORT OF SB 412 THE SIMPLIFICATION BILL AND SB 383 THE DISTRIBUTION BILL PRESENTED TO THIS COMMITTEE FOR REVIEW.

AS A ROYALTY OWNER, I CAN CLEARLY SEE HOW SB 412 WILL CLARIFY THE TAX ASSESSMENTS FOR OIL AND GAS IN OUR STATE. WHEN AN OBVIOUS ERROR OCCURED ON THE TAXES COLLECTED BY THE OPERATOR OF THE WELL OF WHICH I AM A PARTICIPANT, WE CONTACTED THE COMPANY INVOLVED AND ASKED THEM TO EXPLAIN HOW THE TAXES WERE ASSESSED. WE WERE UNABLE TO FIND SOMEONE WHO WAS WILLING OR PERHAPS ABLE TO CLARIFY THE ASSESSED TAXES ON OUR OIL INCOME. WE DID RECEIVE AN ADJUSTMENT BUT HAVE YET TO RECEIVE AN EXPLANATION OF HOW THE WELL WAS TAXED.

IN SUPPORT OF SB 383

AS A COMMISSIONER OF RICHLAND COUNTY, I WOULD LIKE TO ADDRESS THE NEGATIVE IMPACT OF THE CURRENT LGST UNIT VALUE SYSTEM AS IT PERTAINS TO OUR COUNTY.

BRIEFLY, SINCE THE THE ENACTMENT OF THE LGST LEGISLATION RICHLAND COUNTY HAS HAD A SIGNIFICANT LOSS IN REVENUE. THE EFFECT OF THIS REVENUE LOSS HAS BEEN THE DWINDLING OF THE COUNTY RESOURCES AT AN ALARMING RATE. THIS HAS BEEN FELT THE MOST IN OUR ROADAND BRIDGE DEPARTMENTS WHICH ARE LOCKED IN AT THE MAXIMUM MILL LEVIES OF 20 AND 10 RESPECTIVELY.

THIS SERIOUS DEPLETION HAS CAUSED A STEADY DOWNWARD SPIRAL FOR THE COUNTY SINCE IT WAS ACCOMPANIED BY A STEADY DECREASE IN THE TAXABLE VALUE OF PROPERTY. SINCE I HAVE BEEN COMMISSIONER RICHLAND COUNTY HAS HAD TO CUT BUDGETS BY APPROXIMATELY $200,000/YEAR AT THE SAME TIME COSTS HAVE BEEN INCREASING.

RICHLAND COUNTY HAS 172 BRIDGES TO MAINTAIN ALONG WITH 1200 MILES OF ROADS. THE OIL BOOM WHICH WAS A PART OF THE 70'S AND EARLY 80'S HAS LEFT A DEMAND ON THE COUNTY FOR CONTINUED BRIDGE REPLACEMENTS AND ROAD MAINTENANCE. THE COUNTY HAS BEEN FORCED TO REPLACE MANY BRIDGES ON COLLECTOR ROUTES DUE TO THE HEAVY LOAD DEMANDS OF THE OIL INDUSTRY. MANY OF THESE BRIDGES WOULD NOT HAVE BEEN REPLACED IN ROUTINE CIRCUMSTANCES. WE ARE STILL FORCED TO CONTINUALLY UPGRADE BRIDGES AND ROADS TO SERVICE THE OIL AND GAS INDUSTRY WHILE MANY OF OR OUR POORER BRIDGES DO NOT GET REPLACED DUE TO LACK OF FUNDING. MANY OF OUR ROADS HAVE ALSO HAD TO BE UPGRADED FOR YEAR AROUND ALL WEATHER STATUS. WHILE THIS HAS BEEN BENEFICIAL TO SOME TAXPAYERS WHO LIVE AROUND THE WELL SITES, OTHERS HAVE HAD TO MAKE DO SINCE THERE WAS NOT ENOUGH MONEY TO GO AROUND.

AS YOU CAN SEE, RICHLAND COUNTY IS LEFT WITH AN INDUSTRY WHICH STILL DEMANDS CONSIDERABLE SERVICE, BUT WE ARE ALL A PART OF A DWINDLING POT OF MONEY WHICH MAKES UP THOSE FUNDS IN THE LGST.

I WOULD LIKE TO ADDRESS BRIEFLY WITH IMPACT TO OUR COUNTY GOVERNMENT THIS LOST REVENUE HAS GENERATED SINCE FISCAL YEAR 89-90.

THE FIRST YEAR, 90-91, THE MILLS WERE INCREASED 22.14 WHICH COST THE TAXPAYERS APPROXIMATELY $464,362. ALONG WITH THIS INCREASE THERE WAS AN OVERALL REDUCTION OF EXPENDITURES OF $153,153 FOR A NET LOSS TO THE TAXPAYERS OF RICHLAND COUNTY $617,515.

THE FOLLOWING BUDGET YEARS SHOW A DECREASE IN EXPENDITURES OF 167,774 FOR 91-92, $174,216 FOR 92-93, $257,752 FOR 93-94 FINALLY STABILIZING AT A REDUCTION OF $3221 IN THE 94-95 BUDGET.

ALONG WITH THESE REDUCTIONS TO APPROPRIATIONS $120,000 WAS TRIMMED OFF OF CASH RESERVES WHICH LEAVES THE COUNTY WITH RESERVES OF ONLY 6.6% OF TOTAL APPROPRIATIONS. THE 89-90 YEAR HAD RESERVES AT 7.9% OF TOTAL APPROPRIATIONS.

HOW HAVE WE HAD TO COPE TO KEEP OUR TAXES IN LINE SINCE THE 89-90 FISCAL YEAR? LAYOFFS, POSTPONING MAINTENANCE, NOT ROLLING OVER VEHICLES WHEN THEY SHOULD BE, AND NOT FILLING POSITIONS WHEN THEY ARE VACANT.

THE PURPOSE OF THIS TESTIMONY IS ONLY TO SHOW THE COMMITTEE THAT RICHLAND COUNTY HAS SUFFERED A SIGNIFICANT LOSS UNDER THE LGST PROVISIONS AND OUR GAIN FROM GOING TO A TAX LIABILITY DISTRIBUTION SYSTEM WILL ONLY PARTIALLY COMPENSATE US FOR LOST REVENUES.

THE COMMITTEE IS ALSO REMINDED THAT ALL OTHER TAXING JURISDICTIONS WHICH RECEIVE REVENUE FROM THE LGST FUNDS HAVE ALSO BEEN NEGATIVELY IMPACTED.

Submitted By

Warren E. Sothman

Richland County Commissioner

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 8
BILL NO. SB 412

TESTIMONY AND EXHIBITS OF ROSEBUD, POWDER RIVER, BIG HORN AND PHILLIPS COUNTIES IN OPPOSITION TO

THE MONTANA OIL AND NATURAL GAS PRODUCTION ACT OF 1995 (Senate Bill 412)

The original of this document is stored at the Historical Society at 225 North Roberts Street, Helena, MT 59620-1201. The phone number is 444-2694.

Larry G. Schuster
Attorney at Law
1200 32nd Street South
No. 42
Great Falls, Montana 59405

TO: SENATOR GERRY DEVLIN, CHAIRMAN
SENATE TAXATION COMMITTEE

MARCH 10, 1995

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 9
BILL NO. SB 412 & SB 383

FM: BOARD OF COUNTY COMMISSIONERS
PONDERA COUNTY, MONTANA

SB: SENATE BILLS # 383 AND # 412

PONDERA COUNTY HAS REVIEWED THE ABOVE REFERENCED PIECES OF LEGISLATION AND WISHES TO GO "ON RECORD" AS OPPOSED TO THEIR PASSAGE. OUR REASONS ARE AS FOLLOWS:

SENATE BILL 412

A. SECTION 16 - RULEMAKING AUTHORITY
DEPARTMENT OF REVENUE HAS NOT SERVED OUR COUNTY IN THE COLLECTION OF OIL AND GAS REVENUE. THEY HAVE ENTERED INTO AGREEMENTS WITH DELINQUENT PRODUCERS WHICH HAVE RESULTED IN COLLECTION OF 40 CENTS ON THE DOLLAR OR LESS. GIVING TOTAL CONTROL OF A REVENUE SOURCE TO A DEPARTMENT WITH NO "CHECKS OR BALANCES" WILL LEAVE COUNTY GOVERNMENTS WITH LITTLE VALID INFORMATION ON WHICH TO BASE BUDGETS OR ANTICIPATE DELINQUENT COLLECTIONS.

RULEMAKING AUTHORITY AND NEGOTIATIONS SHOULD BE SHARED BETWEEN THE DEPARTMENT OF REVENUE AND THE TAXING JURISDICTIONS AFFECTED.
OR
RULES ADOPTED BY THE DEPARTMENT ARE SUBJECT TO THE APPROVAL OF THE AFFECTED TAXING JURISDICTIONS. NO TAX ASSESSMENT MAY BE ADJUSTED BY THE DEPARTMENT OF REVENUE WITHOUT THE APPROVAL OF THE AFFECTED TAXING JURISDICTIONS.

B. SECTION 9 - RECORD OF PRODUCT
THE DEPARTMENT OF REVENUE USED TO SHARE OWNERSHIP AND PRODUCTION RECORDS WITH OUR COUNTY. WHEN WE IDENTIFIED PRODUCERS WHO WERE NOT REPORTING TO REVENUE WE CEASED RECEIVING THE REPORTS.

PROVIDE COUNTIES WITH PRODUCTION RECORDS AND OWNERSHIP INFORMATION.

SENATE BILL 383

A. THERE IS NO "CHECK AND BALANCE" TO ALLOW THE COUNTIES TO VERIFY AMOUNTS RECEIVED ARE, IN FACT, THE AMOUNTS DUE.

PROVIDE COUNTIES WITH FISCAL INFORMATION WHICH WILL ALLOW FOR VERIFICATION OF TAXES CHARGED VERSES THOSE ACTUALLY COLLECTED.

BY ALLOWING COUNTIES TO RETAIN OR SHARE CONTROL OVER THE TAXATION OF ASSETS WITHIN THE COUNTY THE LEGISLATION COULD BECOME ACCEPTABLE.

BOARD OF COUNTY COMMISSIONERS
PONDERA COUNTY, MONTANA

Bill Rappold

BILL RAPPOLD \ \ CHAIRMAN

Bob Hovde

BOB HOVDE MEMBER

DATE 7/parch 10
EXHIBIT NO. 12
BILL NO. SB 412

March 10, 1995

Mr. Chairman and members of the Senate Taxation Committee. For the record, my name is Gloria Paladichuk and a resident of Helena. I'm representing Richland Development from Richland County. Previous to moving to Helena, I served 16 years in county government -- 10 years as Richland County Treasurer, and the last 6 years as Richland County Commissioner.

I rise in support of SB 383. I would like to point out to the committee the reasons, in my opinion, why the present system is flawed and in need of change. I will give you examples of three counties.

The first example involves a major oil and gas producing county. Following the Special Legislative Session in 1989, this county delayed their final budget process and held a Special Election on, I believe, October 3 of that year for a one-time only emergency request. This locked their county into a higher unit value than the Legislature considered when forming the LGST pot based on 1988 oil and gas production and setting the rates for the industry to pay. A pool was established based on 1988 production and 1989 mills. The school voted levies were completed and counties were in the final stages. This major producing county through their emergency levy increased their county taxes 380%. This was just like a bulldozer dozing a hole in the pool of revenue and a substantial amount of dollars just gushed out. This county's general fund increased 447% from 3.6 mills to 19.7 and then down to 4.4 the following year; the road increased 309% from 5,8 to 23.7 and down to 7.05 mills; and the hospital fund

increased 884% from 2.5 to 24.6 and then down to 1.5 mills. A formula using the 1989-90 budgets determined the LGST that counties were to receive in subsequent years, with no means EVER for adjustments. The Special Election was for an emergency budget levy, an emergency road levy, and a fire district emergency levy. A total of $1,121,000 was transferred to capital project funds the fiscal year following the Special Election. Slightly over $2 million has been transferred to capital project funds from FY90 to FY 94. In FY 92, this county levied zero mills in the general, poor, hospital, clinic, emergency medical & ambulance and cemetery funds. In FY 93, they levied zero mills in the road, poor, bridge, weed and hospital funds. Even though this county had a one-time only emergency request which included building a 10-room addition onto their nursing home and hospital remodeling, the present LGST distribution system forwards revenue to this county based on 1989 mills forever as long as there is oil and gas production in this county for pre-1985 wells.

Example No. 2, which is Richland County, is just the opposite of the previous example. A county-wide hospital district was created by vote in 1990 for operation of a nursing home and long-term care facility.

The Montana code provides hospital districts to be able to collect revenue on each dollar of taxable valuation within the district boundaries. Our hospital district is a county-wide district. However, Richland County's nursing home does not share in any proceeds of LGST. The system is structured that if you didn't mill for it in

EXHIBIT 12
DATE 3-10-95
SB 412

1989, you will not receive any revenue ever. Just one year too late in creating the Richland County Hospital District.

On the other hand, the county in example 1 no longer needs revenue to keep building 10 additional rooms but the formula is such that since they milled for it in 1989, they will be receiving it for all subsequent years, as long as there is oil and gas production in their county.

We feel this is discriminatory against our senior citizen nursing home residents who are not able to be here to speak on their own behalf.

Article VIII, Section 10, of the Montana Constitution makes it mandatory for the Legislature to set debt limits. In reading the transcript of the Constitutional Convention, there was considerable debate with reference to debt limits. An amendment to put the % limit into the constitution rather than leaving the percentage up to the Legislature failed by only a few votes.

It is clear the Montana Constitution charged the Legislature with limiting debt of local governments to keep them solvent. But the LGST does just the opposite in some cases. The Department of Revenue sets the taxable value, which includes oil and gas production, according to law, and then takes the oil and gas revenue that goes with that valuation away from 13 counties. This could drive small counties to bankruptcy. The valuation determines the class of county, the amount of pay for elected officials, and bonding limits.

My third example is Wibaux County with a 256% mill increase since the LGST went into effect and yet $53,835 of oil and gas dollars are leaving Wibaux County each year which equates to 13 mills in Wibaux.

I found it interesting that the Local Government Committee of the Constitutional Convention considered leaving the matter of county boundaries entirely to the Legislature but decided to leave that with the people of the affected counties, and further stated in the report that counties may consolidate because of high tax bills and insufficient local government services but stressed any change must be approved by the counties concerned. The present unit value distribution system is taking government revenue from 13 counties, and driving the tax bills higher. We believe this is not in compliance with the intent of the Montana Constitution. In fact I'm not sure what the boundaries are in 13 counties -- revenue is going clear across the state.

The LGST unit value penalized counties holding down mill levies and rewarded counties for increasing levies -- the more the mills were increased, the greater the reward. It is our belief the present system is illegal, discriminatory and unconstitutional.

I ask that the committee look at a larger picture. If you compare mills on the charts handed out, Glacier County should be adjusted 15 mills as in the base year (1989), PILT dollars were used in the levied funds and the last 3 or 4 years, these funds have been banked in an account which balance is over $1 million which equates to 15 mills in Glacier County each year. This decision by the County Commissioners drove mills up in Glacier County.

We want to keep this out of the courts. We are before you today asking that the distribution be changed to a liability based system. We would be pleased if you look favorably on this bill and urge your "Do Pass Recommendation" on SB 383. Thank you. I have the documents available for committee review with regards to the figures I used.

DATE March 10, 1995

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 383 Senator Tveit
SB 412 Senator Grosfield

< ■ > PLEASE PRINT < ■ >

Check One

Name	Representing	Bill No.	Support	Oppose
Pete Sherwood	Self	412		X
Gordon Kampen	Sheridan Co.	412 & 383	✓	
Gail Abercrombie	MT Petroleum Assn	412	✓	
DAVE JOHNSON	MT Power Assoc	412	✓	
CLAIR MOXLEY	BLAINE CO.	412/383	✓	
Carter Christiansen	Plevna Schools	412 383	✓	✓
JIM HALVERSON	ASSN OIL-GAS-COAL CO	412 383	✓	
Dean Harmon	Roos. Co.	412 383	✓	
Don Rieger	Fallon Co.	412 383	—	✓
Gloria Paladichuk	Richland Developmnt	383 412	✓	
Sue M Olson	Mt. Assoc of Oil, Gas Coal Ltys	412 383	✓	
Larry G. Schuster	Powder River County Rosebud County			✓
	Big Horn County Phillips County			✓
Jim PALADICHUK	W, B, I, P,	SB-412	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

REGISTER.F10

DATE March 10, 1995

SENATE COMMITTEE ON ~~SB 412~~

BILLS BEING HEARD TODAY: SB 383 Senator Tveit
SB 412 Senator Grosfield

< ■ > PLEASE PRINT < ■ >

Check One

Name	Representing	Bill No.	Support	Oppose
Frank Loehding	Bainville School	383	X	
Ken Allison	Fairview School	383	X	
Gary N. Kelleig	Sidney Schools	383	X	
WARREN E. JOHNSON	RICHLAND COUNTY	412 383	X X	
Patricia M. Montalbano	MSR + NMOGA	412	✓	
JEROME ANDERSON	SHELL EXP INC	412	✓	
ALYSE GRANT	MPC	412	✓	
Greg Oblander	MT Power	412	✓	
Gale A. Bailey	Self	412	✓	
Nanette Bortolotti	Self	412	✓	
Mark Fickett	Self	412	✓	
Don Hoffman	Self	412	✓	
Bill Rappold	Powder Co.	383		✓
" "	" "	412		✓

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

REGISTER.F10

DATE March 10, 1995

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 383 Senator Weit
SB 412 Senator Grosfield

< ■ > PLEASE PRINT < ■ >

Name	Representing	Bill No.	Check One: Support	Check One: Oppose
Dennis Burr	MonTax	383/412	✓	
Dylan L Anzen	Chugach Energy	383/412	✓	
Todd Dow	H & C Drilling	383/412	✓	
Carl Knudsen	Socs Schools	383/412		✓
MADALYN QUINLAN	OPI			

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

Discussion: SEN. DELWYN GAGE asked if this bill passes will the amendments put into this bill have to be put into SB 412. Mr. Martin stated, "Yes".

Vote: MOTION PASSED UNANIMOUSLY.

EXECUTIVE ACTION ON SB 358

Motion: SEN. HARP MOVED AMENDMENTS PRESENTED BY CHAIRMAN DEVLIN (601117SC.SRF).

Discussion: Mr. Martin explained the amendments.

Motion/Vote: MOTION CARRIED ON THE AMENDMENTS UNANIMOUSLY.

Vote: SEN. MIKE FOSTER MOVED SB 358 DO PASS AS AMENDED.

EXECUTIVE ACTION ON SB 412

Motion: SEN. LORENTS GROSFIELD MOVED AMENDMENTS TO SB 412 (prepared by SEN. GROSFIELD, Mr. Martin and Mr. Hoffman).

Discussion: Mr. Martin explained the amendments.

SEN. HARP asked SEN. GROSFIELD if the proponents are in agreement with the amendments. SEN. GROSFIELD stated this is just a clean-up amendment.

{Tape: 2; Side: A; Comments: Insert second tape.}

Mr. Martin commented SB 45 is in conflict with SB 412. He stated SB 45 amends a couple sections of law, one of which, is already repealed.

CHAIRMAN DEVLIN asked Mr. Hoffman where SB 45 is in the process. Mr. Hoffman stated it has been signed by the Governor.

Mr. Martin said a coordination instruction can be done if both bills are passed and approved. He said he would repeal 15, 16, and 102 if both bills are passed and approved, and insert the following language, "the amendment to 15, 16, and 102 in SB 45 is void".

Vote: MOTION CARRIED UNANIMOUSLY.

Motion/Vote: SEN. HARP MOVED SB 412 DO PASS AS AMENDED.

Discussion: SEN. GAGE voiced concern with Page 7, Line 25 in regard to pre-1985 old production wells. He stated the royalty owner's proposal is 16⅔% in this bill. He said currently it is 18.2%. SEN. GAGE said he doesn't know anyone in the State of Montana that is getting that kind of tax break this session. He

explained on the royalty schedules that he pays royalty from 78% of those people are non-residents of Montana. He commented it doesn't make sense to him to give a 10% tax break to non-residents of the State of Montana. He stated these wells are ultimately going to phase out. **SEN. GAGE** further explained that the pre-1985 stripper wells are going from a 10.7% rate under current law to a 11% rate. He said the stripper well operators are in the toughest economic shape of anyone in the State of Montana.

CHAIRMAN DEVLIN asked **SEN. GAGE** what the remedy is without upsetting the whole bill. **SEN. GAGE** stated he isn't sure there is a remedy because the Governor has told the people who worked on this bill and who were in support of what is in this bill, if there is a change to this bill in a material way he would veto the bill. He suggested perhaps the committee could bring this to the Governor with the rate changes in it.

SEN. FOSTER commented **SEN. GAGE** is much more familiar with these issues than he. He stated it would be a disservice to this bill and to this effort to tinker with it in a material way. He said the best approach to this bill is to approve the bill as it was currently amended and then in the next session review how the process worked.

SEN. GROSFIELD acknowledged he agrees with **SEN. FOSTER** in the fact that **SEN. GAGE** knows more about this issue, however, **SEN. TVEIT** discussed the rates, and he doesn't recall anyone else in the hearing talking about the rates. He said the Governor has given some assurance that this is a package.

SEN. GAGE commented **Mr. Montalben** attended several meetings with him. He said the last meeting **Mr. Montalben** attended he stated the Northern Montana Oil and Gas Association was opposed to the bill with the 11% figure in it. **SEN. GAGE** acknowledged **Mr. Montalben** had changed his mind when he appeared at the hearing on SB 412. **SEN. GAGE** relayed he had previously informed **Mr. Montalben** that he was supporting a bill that would cost the stripper operators a 2.8% increase, and that he was supporting a bill that with the distribution change will cost Glacier County something close to $300,000.00. **SEN. GAGE** announced this bill has the possibility of raising taxes twice.

CHAIRMAN DEVLIN asked **SEN. TVEIT** to discuss the impact of his amendments on the bill. **SEN. TVEIT** said he discussed with **Mr. Hoffman** the importance of leaving the 10.7% in instead of 100% for the stripper wells. He stated when the DOR put the bill together they wanted a simplification of tax, however, they also wanted neutrality. He explained the bill is about $180,000.00 off with the royalty owners in neutrality. **SEN. TVEIT** acknowledged his amendments change the rates but don't effect the bill or the fiscal note at all. He explained in his formula the numbers go from 17.1 instead of 16.5 on the new oil after 1995,

making the royalty in this area off by $128.00, which is close to revenue neutrality.

CHAIRMAN DEVLIN commented there is time to amend this bill on the floor or in the House and the figures can be digested by the department, the oil and gas producers, and by the Governor. He affirmed possibly a Conference Committee could meet on this bill.

Vote: THE MOTION OF DO PASS AS AMENDED CARRIED 7 - 2 WITH SEN. GAGE AND SEN. FRED VAN VALKENBURG VOTING IN OPPOSITION on a roll call vote.

EXECUTIVE ACTION ON HJR 16

Motion/Vote: SEN. STANG MOVED AMENDMENTS SUGGESTED BY REP. COBB TO INCLUDE THE LEGISLATIVE FISCAL ANALYST OFFICE LANGUAGE. MOTION CARRIED UNANIMOUSLY.

Motion/Discussion/Vote: SEN. VAN VALKENBURG MOVED TO STRIKE THE LANGUAGE ON PAGE 1, LINES 26 AND 27. He explained this language is the reason why the resolution is before the committee. He stated there is no way anybody can look into the future and know what the situation is going to be for the State of Montana, if and when there were any federal tax reform and what effect it would have on Montana. He declared this language ties everyone down to a few good statements that occurred in 1995, that may well be in the exact opposite interest of the State of Montana at the time a federal tax reform went through.

CHAIRMAN DEVLIN commented he likes the language in the bill. SEN. VAN VALKENBURG said where the real problem occurred was in 1981, when there was no federal tax windfall, but a significant state surplus which got put into the base.

QUESTION WAS CALLED ON THE MOTION. MOTION FAILED 3 - 4.

Motion/Vote: SEN. FOSTER MOVED HJR 16 BE CONCURRED IN AS AMENDED. MOTION CARRIED 6 - 1 WITH SEN. VAN VALKENBURG VOTING IN OPPOSITION.

{Tape: 2; Side: 1; Approx. Counter: 48.0.}

COMMITTEE BILL DISCUSSION

SEN. ECK AND SEN. HARP WERE NOT IN ATTENDANCE.

Discussion by SEN. GAGE took place on the proposal of a committee bill. He explained when HB 28 was passed there was a switch from a net proceeds tax to a flat tax on oil. He commented as a part of the whole program each of the taxing jurisdictions basically had a different rate because of the fact the millages were all different. SEN. GAGE stated non-stripper wells agreed to go to an 8.4% rate in order to drop the stripper wells down to a ½% and keep the pot of money coming in which would be given back to the

SENATE STANDING COMMITTEE REPORT

March 14, 1995

MR. PRESIDENT:

We, your committee on Taxation having had under consideration SB 412 (first reading copy -- white), respectfully report that SB 412 be amended as follows and as so amended do pass.

Signed: _____
Senator Gerry Devlin, Chair

That such amendments read:

1. Title, line 21.
Strike: "AND"

2. Title, line 22.
Following: "82-11-135,"
Insert: "AND 82-11-162,"

3. Page 15, lines 1 and 2.
Strike: "this" on line 1 through "(8)" on line 2
Insert: "[section 17]"

4. Page 19, line 27.
Strike: "county taxing units"
Insert: "a county"

5. Page 47, line 28.
Following: line 27
Insert: "**Section 49.** Section 82-11-162, MCA, is amended to read:

"**82-11-162. Release of producing oil or gas well from drilling bond -- fee.** Upon receipt of notification by the owner on a form prescribed by the board, payment by the owner of $125, and proof from the owner that a well completed after June 30, 1989, is producing oil or gas in commercial quantities and is subject to the tax under ~~15-38-104~~ [sections 1 through 20], the board shall release ~~and absolve~~ the owner of the well from the bond required under 82-11-123."
Renumber: subsequent sections

6. Page 49, line 4.
Following: "government"
Insert: "severance tax"

-END-

Amd. Coord.
Sec. of Senate

591339SC.SRF

MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE
ROLL CALL VOTE

DATE March 15, 1995 BILL NO. SB 412 NUMBER 1

MOTION: D.P. A. A.

NAME	AYE	NO
GERRY DEVLIN, CHAIRMAN	✓	
MACK COLE	✓	
DOROTHY ECK	✓	
DELWYN GAGE		✓
LORENTS GROSFIELD	✓	
JOHN HARP	✓	
BARRY "SPOOK" STANG	✓	
FRED VAN VALKENBURG		✓
MIKE FOSTER, VICE CHAIRMAN	✓	
	7	2

SEN:1995
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CS-11

which truly represent market value which was what the previous legislation had directed.

CHAIRMAN HIBBARD asked who staffed the Land Board. **Bud Clinch** explained that the Land Board is comprised of the five highest elected officials and as Commissioner of State Lands, he represented the staff. Each of the Land Board Members has a staff person involved in all deliberations of the Board. The Department of State Lands does the "leg work," the Commission does the hearings and makes recommendations, and the Land Board acts on the recommendations. **CHAIRMAN HIBBARD** stated that the bill is before the Committee because it had been two years and nothing had happened. He asked why the process had not worked. **Mr. Clinch** said he and his staff shared the frustration. Since the issue of recreational use surfaced, there have been 31 hearings around the state. They have gained no ground whatsoever. They have dedicated a substantial amount of staff time and resources and have staffed and organized the Advisory Council.

Closing by Sponsor:

SEN. BECK said the discussion is related to market value and if three appraisers appraise a house, they will all come up with different values and that is the problem with fees for use of state lands. The federal government has a standard that ties the fees to actual market and he did not know if the Land Board had considered that option. He said his intent was to get the message out that something had to be done. He suggested giving another two years to see what can be done.

{Tape: 3; Side: A.}

HEARING ON SB 412

Opening Statement by Sponsor:

SEN. LOREN GROSFIELD, Senate District 13, Big Timber, opened the hearing by stating that SB 412 would revise and simplify the tax on oil and gas production and provides that the revenue from the tax is distributed under current law. The bill would consolidate 28 different rates into five. He said technical amendments would be presented during executive action.

Proponents' Testimony:

Don Hoffman, Natural Resources Bureau, DOR, explained that the bill deals with the complexities of the current taxing system, keeping everyone in the same revenue position. He said that explanation of the current system is sent to new oil and gas producers in a seven-page letter. He said that some returns are filed quarterly and payment is due with the return, some are filed quarterly and payment is due annually, some are filed quarterly and payment is due one year after the filing of the

return which makes it confusing for the Department and the taxpayers. As an example, he presented a letter which pointed out the confusion. EXHIBIT 4. He advised that about a year ago the Department decided it was time to look at the system and they contacted members of the industry, both major industries and independents, and asked them if there was any interest in pursuing the issue in the 1995 session. They then began a process of meeting with the industry, royalty owners, county commissioners, school superintendents, and the Office of Public Instruction to discuss all the issues. Fifteen meetings were held and SB 412 was the result. **Mr. Hoffman** pointed out that the bill is a statewide tax simplification bill which creates the Montana Oil and Gas Production Tax, replaceing the net proceeds tax, the local government severance tax, the RITT as a separate filing, and the privilege and license tax. SB 412 is a compromise and a consensus of the issues on which all participants agreed as a working group. **Mr. Hoffman** then reviewed the bill in depth and provided information illustrating how the rates were determined. EXHIBITS 5 and 6. Under the bill the first returns will be due May 31, 1996, and **Mr. Hoffman** explained how the accelerated tax payments would be dealt with because it could present a tax flow problem for the oil companies. He said the accelerated payment schedule was also a concern to counties and schools and the bill provides that, for county purposes, the money can be placed in an accelerated oil and gas fund and the money would come from the local government severance tax to be used as the county commissioners see fit for anything that is not subject to I-105 limitations. The schools can place the money in any budget fund or miscellaneous fund which would allow them the flexibility to use the money without any affect on mill levies.

In support of the bill, **Mr. Hoffman** presented written testimony on behalf of **Fred Olson, Vice President, Montana Land and Mineral Owners Association**. EXHIBIT 7.

Dave Johnson, President, Montana Petroleum Association, spoke in favor of SB 412. A copy of his testimony is attached. EXHIBIT 8.

Jerome Anderson, Shell Western Exploration and Production, Inc., said he had approached the DOR's proposal with reservation. They now support the legislation.

{Tape: 3; Side: B.}

Jim Halvorsen, Association of Oil, Gas and Coal Counties, spoke in support of the bill.

Gloria Paladichuk, Richland Development Corporation, said that as a former county treasurer and county commissioner, she had experienced the frustration of trying to understand the oil and gas tax process. She urged the Committee to pass the bill.

Stan Kaleczyc, Meridian Oil Company, said his company is in favor of the bill because it would provide administrative simplification, maintains the current rate for primary production and it retains the incentives passed during the last special session that have proven to be successful and has stimulated new development in the state.

Gail Abercrombie, Executive Director, Montana Petroleum Association, presented a letter from Association member **Curtis D. Jundt** expressing support for SB 412. EXHIBIT 9.

Alyse Grant, Montana Power Company, said one of her primary responsibilities is to file and submit natural gas production tax reports. She said the intent of the bill was not to provide any tax breaks or additional protection by participating in the drafting of the bill. The present system is time-consuming, costly and confusing. She encouraged the Committee to support the bill.

Patrick Montalban, President, MSR and Vice President of the Northern Montana Oil and Gas Association, said they were proponents of the simplification bill and believe it is one of the more important bills to affect the oil and gas industry in the last 15 years. The burden of keeping track of the numerous taxes is hard on the small independents because of the administrative costs. He thanked the Governor's Office and the DOR for initiating the study group that resulted in SB 412. He said everyone got together, formed a unified group and agreed that it was a very positive process. He said the small independents wanted simplification of taxes, more current payment schedules and the one-year exemption for the drilling of new wells. He said this is an important bill for the industry because it makes common sense. He complimented the Committee on the work it had done so far in the session and asked for the Committee's support of SB 412.

SEN. LARRY TVEIT, Senate District 48, Fairview, testified in support of SB 412. He said a lot of work had been done in putting the bill together and it would benefit the school districts and counties and would be good for the industry.

Dennis Burr, Montana Taxpayers Association, offered strong support for the bill.

REP. JIM ELLIOTT, House District 72, Trout Creek, said he would support the bill because he supports simplification of tax reporting.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. STORY asked for an explanation of the account the schools and counties would be putting their money in. **SEN. GROSFIELD** said the money that would result from the acceleration of payments would be deposited in an account which is outlined in Section 19 of the bill. The section also describes exactly how the money would be distributed.

REP. HANSON asked if there would be "winners and losers" under the proposal. **Mr. Hoffman** said that the way the bill is drafted, there would not be any losers and the counties would be the winners because they would get the accelerated payments. The companies would be winners because it does away with the payment delay. It also eases the administrative burden for the DOR and the companies.

REP. ARNOTT asked if the money would be sent back to the counties in the proportion it was collected. **Mr. Hoffman** said the money that goes back to the counties and schools would be distributed under a statutory formula that would not be changed under this bill. The formula was adopted into law in 1989 as part of the school equalization package.

In response to questions from **REP. REAM**, **Mr. Hoffman** again explained how the rates had been determined and how assumptions were arrived at. He said there were coordination instructions in the other bills being heard before the Committee which tell the Council and the Legislature how they will be brought into the table. If the other bills pass, they won't affect this bill in any way.

Closing by Sponsor:

SEN. GROSFIELD reminded the Committee again that the bill was complex and dealt with a lot of areas but it would simplify a lot of areas. It is a worthwhile bill and does not do anything to change what was done in the special session. He asked the Committee to pass the bill.

{Tape: 4; Side: A.}

HEARING ON SB 418

Opening Statement by Sponsor:

SEN. DEL GAGE, Senate District 43, Cut Bank, advised that SB 418 was a bill that originated in the Senate Tax Committee. It was brought to the Committee's attention that an individual had a problem with the Department of Revenue because the federal code had a rule that says that if a benefit is not received from a particular deduction that results in a refund, the refund is not taxable. The bill would revise the taxability of tax benefit items for Montana individual income tax purposes, incorporating

Vote:

On a voice vote, the motion passed unanimously.

EXECUTIVE ACTION ON SB 412

Motion:

REP. ROSE MOVED THAT SB 412 BE CONCURRED IN.

Discussion:

REP. REAM said another bill would be coming before the Committee and he wondered how that bill would fit with SB 412.

Mr. Heiman advised that all the other bills have coordinating instructions to SB 412 and make it easy to understand the relationship. This bill will stand whether the other bills are passed or not.

REP. ELLIOTT said it would affect the fiscal note. **Mr. Heiman** explained that the fiscal impact is determined independently and when the bill is codified by the Council, it will be coordinated with this bill.

REP. ELLIOTT requested that action on this bill be postponed until Sen. Jergeson's bill is heard.

REP. REAM asked Judy Paynter of the DOR to prepare a table including columns for the stripper bill and the Jergeson bill which would show the fiscal impact on one chart. **Ms. Paynter** said she could provide that information.

REP. ROSE WITHDREW HIS MOTION.

CHAIRMAN HIBBARD announced that further action would be delayed until SB 313 had been heard before the Committee.

EXECUTIVE ACTION ON SB 407

Motion:

REP. ARNOTT MOVED THAT SB 407 BE CONCURRED IN.

Discussion:

There was no discussion on the bill.

Motion/Vote:

On a voice vote, the motion passed unanimously.

HOUSE OF REPRESENTATIVES

Taxation

ROLL CALL

DATE March 30, 1995

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott	✓		
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs	✓		
Rep. Hal Harper	✓		
Rep. Rick Jore			✓
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr	✓		
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		

EXHIBIT 4
DATE 3/30/95
SB 412

February 24, 1995

RECEIVED
MAR 1 1995
DEPARTMENT OF REVENUE

State of Montana
Natural Resource &
Corporate Tax Division
Helena, MT 59620-2701

ATTN: Cheryl

Dear Cheryl:

In regards to the enclosed Notice of Delinquent Natural Gas Severance and Natural Gas Privilege & License tax due, I would like to offer the following explanation for late payment. I would also like to request that you please waive the penalties and/or interest assessed.

In October, 1994 I took over the data processing and gas tax reporting duties from a previous employee. I have never worked specifically with reporting these types of taxes to the state and only had two weeks training to assume the duties of a large system. I made a calendar list of all due dates for tax reports early in October so I would not miss any filings. And, I have filed all reports on time. However, I mistakenly thought the tax computed on this particular report was to be paid at a later date (with the 4th quarter return) as is indicated on the bottom of Form NG-1. This seemed logical at the time since several other reports are sent without payment and the state or county creates a statement to be paid anywhere from 60 days to 1 year later, as in the case of LGST Tax Reports.

Since receiving notice of late payment I have reviewed all tax reports due to make sure which ones require payment with the report. I don't want this to happen again!

rg/wp/22495

DATE 4/29/93
HB SB 112

Oil Production Tax Rate Simplification

Working Interest "OLD" = 14.1%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest	10,126,548	$149,700,759	14.10%	14.10%	$21,107,807	$21,107,807	$0

W.I. "NEW" = 12.7% : 12-Month = 5.7%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Net Proceeds-Working Interest	2,199,268	32,511,775	12.70%	12.70%	$4,128,995	$4,128,995	$0
Net Proceeds (Exempt) Working Interest	423,443	6,259,759	5.70%	5.70%	$356,806	$356,806	$0
Total Production and Effective Tax Rates	2,622,711	$38,771,534	11.57%	11.57%	$4,485,802	$4,485,802	$0

STRIPPER = 11.0% : 12-Month = 5.7%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest	1,820,818	$26,917,152	10.70%	11.00%	$2,880,135	$2,960,887	$80,751
Net Proceeds Working Interest	400,340	5,918,219	12.70%	11.00%	$751,614	$651,004	($100,610)
Net Proceeds (Exempt) Working Interest	77,081	1,139,483	5.70%	5.70%	$64,951	$64,951	$0
Total Production and Effective Tax Rates	2,298,238	$33,974,855	10.88%	10.82%	$3,696,700	$3,676,841	($19,858)

ROYALTY = 16.5% : No 12-Month

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST NWI	1,478,734	$21,860,125	18.20%	16.50%	$3,978,543	$3,606,921	($371,622)
Net Proceeds NWI	276,107	4,081,694	12.70%	16.50%	$518,375	$673,479	$155,104
Net Proceeds (Exempt) NWI	61,862	914,513	5.70%	16.50%	$52,127	$150,895	$98,767
Total Production and Effective Tax Rates	1,816,704	$26,856,331	16.94%	16.50%	$4,549,045	$4,431,295	($117,750)

INCENTIVES

All current law horizontal and enhanced recovery tax incentives remain unchanged.

Grand Total	16,864,201	$249,303,479	13.57%	13.52%	33,839,353	33,701,745	($137,609)

ASSUMPTIONS:

• Production is CY1993 • 89% of Net Proceeds production is working interest and 11% is non-working interest • 84.6% of total production would qualify as regular and 15.4% as stripper production •
• Assumed price per barrel (all oil) is $14.783 • 4.2% of total production is non-taxable royalties • The 12-month holiday on new production is included under the simplified rate structure •

EXHIBIT #6
DATE 3/30/95
HB SB 412

State Oil and Gas Production Taxes As A Percent of Total Production Taxes

(Method Used To Determine Project-95 Across-the-board State/Local Distribution Percentages)
CY1993 Base Projected to CY1996

Production Type	Local	State	Combined	Percent To State
LGST Royalty Regular Gas	$434,525	$95,453	$529,979	18.01%
LGST Regular Gas	2,790,790	613,059	3,403,849	18.01%
LGST Royalty Stripper Gas	396,420	18,725	415,146	4.51%
LGST Regular Stripper Gas	2,710,391	195,244	2,905,635	6.72%
Net Proceeds Royalty Stripper Gas	135,311	9,704	145,016	6.69%
Net Proceeds Regular Stripper Gas	1,373,824	82,470	1,456,293	5.66%
Net Proceeds Royalty Regular Gas	348,552	118,075	466,627	25.30%
Net Proceeds Regular Gas	2,148,681	599,840	2,748,522	21.82%
Total Gas	$10,338,495	$1,732,570	$12,071,066	14.35%

Production Type	Local	State	Combined	Percent To State
LGST Royalty Regular Oil	$1,789,206	$815,878	$2,605,085	31.32%
LGST Regular Oil	9,698,587	6,581,184	16,279,771	40.43%
LGST Royalty Stripper Oil	339,130	154,643	493,774	31.32%
LGST Stripper Oil	1,017,197	1,159,604	2,176,801	53.27%
Net Proceeds Royalty Stripper Oil	19,160	16,847	36,007	46.79%
Net Proceeds Stripper Oil	123,867	100,863	224,730	44.88%
Net Proceeds Royalty Regular Oil	426,902	409,275	836,177	48.95%
Net Proceeds Regular Oil	3,336,246	2,716,657	6,052,903	44.88%
Total Oil	$16,750,295	$11,954,952	$28,705,247	41.65%

Natural Gas Tax Rate Simplification

Working Interest "Old" = 18.75%

Current Production Type (Regular)	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST Working Interest	11,165,202	$19,550,269	18.60%	18.75%	$3,636,350	$3,665,675	$29,325

W.I. "New" = 16.35% : 12-Month = 3.35%

Current Production Type (Regular)	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Net Proceeds Working Interest	6,866,905	12,023,951	15.35%	15.35%	1,845,676	1,845,676	$0
Net Proceeds (Exempt) Working Interest	1,943,703	3,403,424	3.35%	3.35%	114,015	114,015	$0
Total	8,810,608	$15,427,375	12.70%	12.70%	1,959,691	1,959,691	$0

STRIPPER=11.2% : 12-Month =3.35%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest (St. Sev. Taxable)	1,729,138	$3,027,721	12.29%	11.20%	$372,107	$339,105	($33,002)
LGST-Working Interest (St. Sev. Exempt)	11,779,753	20,626,347	10.70%	11.20%	2,207,019	2,310,151	103,132
Net Proceeds-Working Interest (St Sev Taxable)	1,011,281	1,770,753	14.29%	11.20%	253,041	198,324	(54,716)
Net Proceeds-Working Interest (St Sev Exempt)	6,889,352	12,063,255	12.70%	11.20%	1,532,033	1,351,085	(180,949)
Net Proceeds (Exempt) W.I. (St. Sev. Taxable)	286,247	501,218	2.29%	3.35%	11,478	16,791	5,313
Net Proceeds (Exempt) W.I. (St. Sev. Exempt)	1,950,057	3,414,550	0.70%	3.35%	23,902	114,387	90,486
Total	23,645,827	$41,403,844	10.63%	10.46%	$4,399,580	$4,329,843	($69,737)

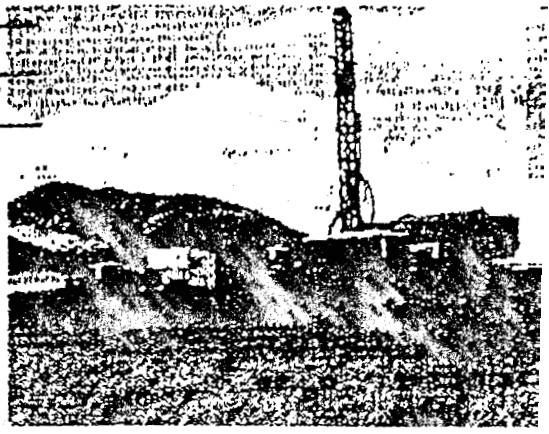
ROYALTY=15.00% : No 12-Month

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST- Non-Working Interest Regular	1,802,920	$3,156,913	18.60%	15.00%	$587,186	$473,537	($113,649)
LGST-NWI Stripper (St. Sev. Taxable)	188,188	329,517	17.54%	15.00%	57,797	49,428	(8,370)
LGST-NWI Stripper (St. Sev. Exempt)	1,282,030	2,244,835	15.95%	15.00%	358,051	336,725	(21,326)
Net Proceeds-NWI Regular	909,884	1,593,207	15.35%	15.00%	244,557	238,981	(5,576)
Net Proceeds-NWI Stripper (St. Sev. Taxable)	133,998	234,630	14.29%	15.00%	33,529	35,194	1,666
Net Proceeds-NWI Stripper (St. Sev. Exempt)	912,859	1,598,415	12.70%	15.00%	202,999	239,762	36,764
Exempt NP - NWI Regular	257,546	450,963	3.35%	15.00%	15,107	67,645	52,537
Exempt NP- NWI Stripper (St. Sev. Taxable)	37,929	66,413	2.29%	15.00%	1,521	9,962	8,441
Exempt NP- NWI Stripper (St. Sev. Exempt)	258,388	452,437	0.70%	15.00%	3,167	67,866	64,699
Total	5,783,741	$10,127,331	14.85%	15.00%	$1,503,914	$1,519,100	$15,185
Grand Total	49,405,379	$86,508,818	13.29%	13.26%	$11,499,535	$11,474,309	($25,226)

EXHIBIT 7
DATE 3/30
SB 412

Montana Land and Mineral Owners Association

P.O. Box 1801
Havre, Montana 59501



March 9, 1995

Mr. Don Hoffman
Bureau Chief
Natural Resources Bureau
Mitchell Building
Helena, MT 59620

Dear Mr. Hoffman:

The following is being submitted for testimony at the legislative hearing concerning SB 412.

The Montana Land and Mineral Owners Association consists of approximately 160 members from Hill, Blaine, Chouteau, Liberty and Phillips Counties and has been in existence for over 20 years.

The vast majority of production in our area is natural gas with only a small amount of oil production. Because of this our knowledge of oil production and taxation is limited, thus this testimony will deal only with the natural gas portion of SB 412.

On behalf of the directors and members of the MLMOA, we strongly support this proposal for the following reasons:

1. Royalty owners will have only one tax rate which will make their royalty statements much easier to understand and keep straight.

2. The bill creates a stripper category for "new production" which should encourage increased exploration.

3. The proposed tax structure would not seem so menacing to out-of-state producers interested in expanding into Montana.

4. All taxes will be filed on a single quarterly tax return.

5. All categories would remain "revenue neutral."

Our association feels that this proposal was a good idea to start with and has been supported by industry and royalty owners alike. We wish to commend the Department of Revenue for their efforts.

In closing I ask for your support of SB 412 in its current form.

Thank you for your consideration.

Sincerely,

Fred S. Olson

Fred Olson
Vice President

FO:sn

cc: Herb Vasseur, MLMOA President

EXHIBIT 8
DATE 3/30/95
SB 412

MONTANA PETROLEUM ASSOCIATION
A Division of the
Rocky Mountain Oil and Gas Association

~~53~~ S. Last Chance Gulch, Suite 2B
Post Office Box 1186
Helena, Montana 59624-1186

Telephone (406) 442-7582
FAX (406) 443-7291

Gail Abercrombie
Executive Director

TESTIMONY

David A. Johnson
President
Montana Petroleum Association

SB 412
GENERALLY REVISING TAXATION OF OIL AND NATURAL GAS

March 30, 1995
House Taxation Committee

Mr. Chairman, members of the Committee, I am David Johnson, president of the Montana Petroleum Association and Montana vice president of the Rocky Mountain Oil and Gas Association.

Tax simplification of oil and gas production taxes had been a topic brought up in our association's discussions of long range planning. However, as of last winter, we had not focused on details nor aimed to pursue simplification in the 1995 session. But, when the Department of Revenue contacted MPA members and asked for a meeting in early April to broach the subject, we responded.

The initial proposals for oil and gas tax rates which the Department put on the table at that meeting certainly prompted discussion -- discussion that sounded more like protest. We left the meeting with a high level of doubt, but we told the Department that we would look at possible rate scenarios and would be available for further discussions.

Although tax simplification had not been in our near term agenda, it was thought that, given the cooperative posture of the Department, this was an opportunity that should not be dismissed.

As the Department staff has reviewed for you, the meetings were numerous, eventually broad-based and far flung. In addition to the public meetings, our

members met via conference calls to run various tax rates with their mixes of production -- old and new, primary and stripper, working and royalty production. It was a laborious process. Our members were dedicated to finding and unifying behind a consensus position. We had to find what rates each company could live with and identify the principles and practicalities upon which to base the consensus.

One of the principles of highest priority dealt not with the rates but with the standardization of production reporting and payment of the taxes. The variety of dates for reporting and payment defy any efforts for efficiencies in administration. Efficiencies in government and corporate affairs are desirable and necessary.

Another principle was, that for each class of production, the working interest owner, who expends the capital to explore and develop the drilling prospect, should not have a tax rate higher than the royalty interest owner, who does not risk capital.

A third principle was that the composite tax rate for new production should not be any higher than it currently is. Early on in running the numbers, it was found that to consolidate old and new primary production into one rate and maintain revenue neutrality, the rate arrived at would have to be higher than is currently levied against new production. That would send a very bad signal to operators and investors. Montana already has a poor reputation in the oil and gas community for its high tax rates, and the impression lingers of a disinclination to attract oil and gas activities to the state. To up the tax rate on new production would reinforce that reputation.

The tax rates in Senate Bill 412 have been communicated to MPA members and analyzed by those members who were active through the months of deliberation. From the beginning of the process, we expressed concern among ourselves and eventually to the Department, that bringing an oil and gas tax rate bill before the legislature would make the rates vulnerable to predation. Assurances were shared among the tax simplification participants and given by the governor that the rates in the legislation would be a consensus position and shifting or increasing rates in the legislative process to benefit one group of participants over the others would not be condoned. Amendments, however, were adopted in the Senate. MPA members reviewed the changes and did not protest them, deeming their impact minor. The

most concern with adoption of the amendments was the setting of precedence for further rate manipulations with more magnitude of impact. We would look very much askance at any such efforts.

Taxes on oil and gas production, whether they be in Montana or a neighboring state, are never simple. Given the parameters we were working with, Senate Bill 412 is a good product. One of its best assets is the standardization of the production reporting and tax payments.

The Montana Petroleum Association supports Senate Bill 412 as it is before you today.

EXHIBIT 9
DATE 3/30/95
HB SB 412

WILLISTON BASIN
INTERSTATE PIPELINE COMPANY
A Subsidiary of MDU Resources Group, Inc.

Suite 300
200 North Third Street
Bismarck, ND 58501
(701) 221-1200

Direct Dial No.
(701) 221-1259

March 28, 1995

To: The House Taxation Committee
Montana House of Representatives

RE: SB 412 - Oil and Gas Production Tax Simplification Bill

Williston Basin Interstate Pipeline Company (Williston Basin), one of the largest gas well operators in the State of Montana, and its producing division, WBI Gas Services Co. (WGS), would like to express our support for SB 412. As part of an industry and Department of Revenue effort during 1994, our company was actively involved in the development of a somewhat more simplified production tax structure brought before you now as SB 412. While Williston Basin actually stands to pay slightly more taxes as a result of SB 412, it was viewed by the company's management as a trade-off toward gaining a somewhat more simplified and efficient application of production taxation in the State of Montana.

Williston Basin and WGS also produce gas in the State of North Dakota. While SB 412 has a long way to go to match the ease and simplicity of North Dakota's flat four cents per thousand cubic foot tax rate, Williston Basin remains confident that the Montana Legislature will do the right thing for the State and the Oil and Gas Industry, by passage of SB 412.

Thank you for your time and consideration in this matter.

Respectfully,

Curtis D. Jundt
Director of Gas Services
WBI Gas Services Co.

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

COMMITTEE Taxation BILL NO. SB 412

DATE 3/30/95 SPONSOR(S) Sen. Grosfield

PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Gloria Paladichuk	Richland Development	X	
JIM HALVERSON	ASSN - OIL-GAS-COAL CO.	X	
ALYSE GRANT	MONTANA POWER	X	
DAVID A JOHNSON	MT. PETROLEUM ASSOC	X	
DON HOFFMAN	DEPT. OF REV.	X	
Jerome Anderson	State Senate Exp Dir.	2	
Jim PAladichuk	M.D.U. Resources	✓	
Patrick M. Montgomery	MSR + NMOGA	✓	
Karl Abercrombie	MT Petroleum assn	✓	
DENNIS IVERSON	NMOGA	✓	
Larry Tveit	State Senate 50	✓	
STAN KALEC	MEREDITH OIL		

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FO
ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.

REP. STORY said the determination had already been made by the DOT that children can be bussed to a non-public school using tax exempt fuel. He said the bill addresses transporting children to church-related activities and has nothing to do with the school.

REP. HARPER said that when he offered the amendment to add the word "solely" it would make sure that if a school had a bus that was used solely for purposes other than transporting children to and from school, they would be tax exempt. Now his understanding was that transportation to and from school was something outside the scope and if it was something the Legislature could legalize, he would not support it because that would clearly be a public subsidy of a religious institution.

Vote:

On a voice vote, the motion failed.

Discussion:

REP. ELLIOTT said the bill, according to Mr. Salisbury, was drafted to allow busses that haul kids to school to use tax-exempt fuel. It is constitutionally illegal in the State of Montana to expend public money for sectarian purposes. The bill is an "end-run" attempt to run around the Constitution by not charging the tax in the first place. It would have the same effect as giving a tax refund.

{Tape: 5; Side: A.}

Motion\Vote:

REP. ARNOTT MOVED THAT SB 409 AS AMENDED BE CONCURRED IN. On a roll call vote, the motion passed, 11 - 9.

EXECUTIVE ACTION ON SB 412

Motion:

REP. ELLIOTT MOVED THAT SB 412 BE CONCURRED IN.

Discussion:

None.

Vote:

On a voice vote, the motion passed unanimously.

HOUSE STANDING COMMITTEE REPORT

April 5, 1995

Mr. Speaker: We, the committee on **Taxation** report that **Senate Bill 412** (third reading copy -- blue) **be concurred in.**

Signed: _____

Chase Hibbard, Chair

Carried by: Rep. Elliott